

Economics in Action . Sept. 1954

Even confirmed pessimists concede that the readjustment of 1953-54 (as it will probably come to be known in the history books) is over. In fact, signs of recovery are so many and so widespread that some optimists are looking for a new boom by October:

Industrial Production, which has fluctuated by less than 2% since January, is still going strong. Apart from a temporary decline in auto and steel output, most industries are now doing better than they did in the first quarter. Many industries (chemicals and non-ferrous metals, for example) are doing much better.

Unemployment has not increased despite the influx of students into the summer labor market. Unemployment rose by only 42,000 in June, the smallest increase for the month in fifteen years. Indications are that July and August may have pushed the total of unemployed up a little further, but nowhere near the 4,000,000 predicted by most economists last May.

Personal Income in the early summer months held remarkably steady in spite of sharp reductions in farm receipts and factory payrolls. In fact, disposable income (income after taxes) is virtually unchanged from a year ago. And, Commerce Department figures indicate consumers are saving only about 7% of their disposable income, which is about normal. Actually, many families appear to be spending more than "normal" at the moment, for tax cuts have not yet caught up with everybody.

But in spite of these unmistakable signs of recovery, most economists continue to speak of a "sidewise movement," at least until the last quarter of 1954. They just don't see any forces on the economic horizon

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(though plenty on the international horizon) powerful enough to start a major upswing before then. And most of them do not believe that we shall catch up with last year's record-breaking pace until 1955:

Take industrial production, which appears to have stabilized over the summer months at a level about 9% below last year's. While there is little doubt that we shall be able to reduce that margin substantially within the coming months, few economists believe that we can catch up completely with last year's pace before the year is out.

Steel production, which is currently operating at about 66% of capacity, will start rising sometime this month, but it is not expected to exceed 80% for the rest of the year (compared to 95% last fall).

Autos did remarkably well in June, but dealers are still overstocked and production schedules are headed downward until October when the first '55 models will be readied for the market. Production of consumer durables (TV sets, washing machines, furniture, etc.), on the other hand, is expected to show a substantial gain this month as merchants begin to build up inventories for the Christmas trade and the usual winter upsurge in buying.

The amount spent by business for expansion and, even more important, by the consumer for himself and his family is going to be an important factor controlling production and jobs.

So far, it has been the consumer rather than business or the Government that has led the recovery:

Business spending for new plant and equipment is running pretty close to the Administration's esti-

(Cont'd on p. 63)

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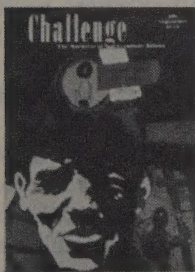
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a personal note

THERE IS DISCONTENT IN THE AMERICAN AIR. I refer not to the everyday disappointments and commonplace misapprehensions that we all frequently experience. Rather, I am referring to a type of discontent which runs through the fabric of a society and sets the fashion of outlook on life, so to speak, as adopted by adults and consequently by adolescents. It is a frustration over a situation for which no one can be blamed and about which nothing, seemingly, can be done.

The visible frontier in this country disappeared around 1890. About all a man can do today if he is discontented with his present situation is to say, "I wish I could pack up and go some place for a fresh start."

You might say that there are not too many people who begin each day with the fond wish for a new frontier and who end each day with the disappointed feeling that there is nowhere to go and nothing to accomplish. But if there are not too many of such people, there are *some*—and some is too many. There is no use calling attention to the statistics of the high standard of living which prevails in this country. The discontent I am speaking about cannot be answered by counting economic realities. The problem is an emotional one: the frontier is gone, and a man must make the best of what he has where he is.

Once a man believes that the frontier is gone, he begins to lose his faith in some of the ideals which nurtured him as a boy. The American tradition of initiative, self-reliance, hard work, enterprise and ultimate reward is based upon the opportunities of a frontier atmosphere. It is understandable if the grown man becomes a little confused and frustrated when he thinks he finds no frontier.

To the young people going back to school this month the problem of what comes after schooling is a live issue. What visible frontiers can we point out to these youngsters? What are their opportunities, unbounded by the *status quo*? In 1854 one could point to the West. There was the land with its boundless opportunities and challenges—begging to be grasped. In 1954 the frontier is not so visible. But careful study of the not-so-visible frontiers, like the world revealed by a microscope, brings to life a thrilling, vibrating realm of opportunity which should quicken the pulse of modern men.

I believe it takes a Daniel Boone to open up new territory in any sphere of activity. If a young man wants to move into new frontiers, no one can drive him to take the first step. Tradition and ideals will help to instill in him the proper attitude. This he gets from the adults around him. Capacity he must be born with. Know-how he should be taught. The rest is up to him. The perceptive eye of the modern frontiersman scans the world, and if he sees something which he believes can be done better, he has found a frontier.

Scientific research and industrial technology are the more obvious fields which open new opportunities. Young people are getting plenty of indoctrination in this direction. But how about some of the less obvious but just as rewarding fields? The other day I saw some carpenters putting up a house. One carpenter was standing on the second story of the unfinished frame—sawing a board with a handsaw! Another was joining two pieces of wood with hammer and nails. There were other workmen on the street level, putting up the brick front. They would bend down, pick up a brick, slosh in the cement, put the brick in place, pound it with the handle of the trowel, and then bend down and pick up another brick, etc. Surely there must be something wrong with this method of putting up a house. Here is a frontier for a man with nerve, an ingenious mind and a desire to accomplish something. Some forays into this frontier are being made now, but it will take much more than a foray to build a house for \$10,000 which today costs \$20,000—and a bigger and better house at that.

ANOTHER FRONTIER HAS OCCURED TO ME. It is in the field of distribution. It happens to be a fact that most of our goods and services today cost as much to get to the consumer as they do to produce in the first place. What major accomplishments of planning and execution will be required in transportation, manufacturing, marketing, inventory control, salesmanship, retailing, etc., to cut this gap between production and distribution?

There are thousands of other frontiers, some barely scanned, others still unknown. So long as there is nothing in American life which can tell a man what he must think, where he must work and what he must hope to accomplish, the frontier is as limitless as the day Christopher Columbus and his crew sighted the New World. Only our attitude limits the frontier. To stimulate the right attitude among coming generations is a birthright which no adult should dare to deny. The frontier is dead. Long live the frontier!—H.B.

Retirement funds built on today's dollars must be geared to pay benefits which correspond with future rises in the cost of living

PENSIONS AND THE CHANGING DOLLAR

by Robert E. Sibson

MEMBERSHIP in a pension plan has promised security and peace of mind to millions of Americans approaching retirement age. It has also promised added vitality to the economy by making older people stable consumers, paying their way—not being paid for. But the millions of workers covered by private pension plans want more than a share in a plan—they also want to be assured of an adequate income during their retirement years. This may sound like a truism. Yet the very purpose of private pensions, to provide adequate income during retirement, is difficult to achieve.

As pension programs have developed in the past twenty years, they have sought to meet three areas of retirement needs. The first and most immediate was the need for wide coverage. Today, 90 percent of the employed workers in the nation are covered by some pension program, either governmental or private, and Congress is presently considering

a move to include additional groups under Social Security benefits. Universal pension coverage is fast becoming a reality. Once a private plan is adopted it must face the second test—that of “adequacy.” The big question here is whether the plan will provide an adequate monthly benefit *at the time the worker retires*. According to most pension experts, an adequate plan is one which provides yearly benefits on retirement equal to about one-third of a worker's annual income after twenty-five years of service. Most of the private plans in effect today, when combined with Social Security benefits, achieve “adequacy.” The third pension need is for adequate retirement benefits *throughout a worker's years of retirement*. It is in this area that private pension plans have failed to keep abreast of the growing needs.

Few pension plans have even attempted to attack the problem of adequate benefits throughout

retirement. Most plans have been designed to provide a fixed rate of benefits even though economic conditions in general and the cost of living in particular are almost certain to change during an individual's period of retirement.

THE effect of this inflexibility of retirement benefits can be disappointing to the retired person. On the average, a man who retires at age sixty-five will live for fifteen years. A review of almost any fifteen-year period of our history will show major changes in the cost of living, which, for the man living on a fixed retirement income, means a changing standard of living. Take the case of a man who is entitled to receive a \$100 monthly pension. If we assume that the cost of living during the next fifteen years will rise generally as it has in the past fifteen years, the worker's real retirement income will be reduced by almost 50 percent at the end of his retirement period. Actually, by 1969 he would receive a monthly pension equal to only \$50 of purchasing power.

While there is no way of knowing whether the cost of living will increase in the next fifteen years by 50 percent, we can be

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sure that it will change. Furthermore, factors in our economy suggest that, barring a depression, the movement in consumers' prices probably will be upward. Under these conditions, inflexible pension benefits and rising living costs will remain a major pension problem in future years.

The usual "solution" to the problem of fixed pension benefits and rising living costs is the suggestion that the benefits of all retired employees should be adjusted to changing economic conditions. Actually, this is what is done under the Federal Social Security System. Social Security benefits have already been adjusted once in the postwar period. But there is a basic difference between Social Security and private plans. That difference is in financial responsibility.

SOCIAL Security is really insurance in name only. As the Government operates the program, the resources of the Government, including tax revenue and Federal borrowing, stand behind Social Security obligations. The Government can raise pension benefits now without having reserves on hand. Private pension plans, however, cannot manipulate benefits with equal ease. Benefits under a private plan cannot exceed pension reserves. Therefore, raising the benefits of retired workers

has been restricted in a majority of private pension plans.

Another suggestion is to liberalize pension plans so that benefits received by a retired worker would be high enough to allow for some inflation. Unfortunately, no one can guess how much the cost of living will rise—or fall—in the future. Our experiences in recent years prove that under certain situations these fluctuations can be very rapid. As a result, liberalized pension plans would have to contain a considerable cushion to protect pensions against swings of the economy. This would necessitate adding a further burden to both employer and employee who already contribute heavily to the cost of pension plans.

The final aspect of pension planning which must be remembered when attempts to adjust fixed benefits are examined is the need for a fixed rate of contributions to a pension fund. Any policy which calls for the adjustment of payments would make it impossible to fix contributions. Under these conditions, private pension plans paying flexible benefits would gamble their reserves.

THUS it would seem that pension plans must provide benefits which fluctuate and at the same time provide a fixed rate of costs. On the one hand, flexible retirement

benefits would insure that the retired worker does not have his pension income reduced by a rising cost of living and, on the other hand, a fixed rate of costs assures that the plan is financially sound for the employer and for the retired employee who depends on the stability of the fund.

How can this apparent conflict of requirements be met? One basic approach calls for the partial investment of pension money in corporate stock under an arrangement which is similar to the open-end mutual investment fund. Under this type of equity retirement program, contributions would be used to buy shares in an investment fund composed of diversified common stock issues and fixed-income bonds or annuities. The number of shares purchased for each member would be determined by the value of the fund's outstanding shares, which would be determined, in turn, by the stock market value of the equities in the fund. Thus, each time contributions to the fund are made, shares are credited to a member until his retirement. The actual cash benefits received each month after retirement would then depend upon the total number of shares credited to a worker on retirement, divided by the number of months of life expectancy and the resulting value of his share of the fund.

The basic premise underlying partial investment of pension funds in equities is the concept that as economic conditions and the cost of living vary, the value of equities will change correspondingly. While the amount of movement between the cost of living and stock values is not identical, past experience indicates the direction of their movements over the long run is comparable. Therefore, presuming that the stock purchased for a pension fund would be of the type least vulnerable to vast fluctuations in value, pension benefits received from the sale or exchange of these stocks would compensate in part for the inflationary cost of living.

The Teachers Insurance & Annuity Association has done some of the important research and groundwork embracing this thinking. It now provides a pension plan in which at least half of the total contributions to the plan are used to purchase pension annuities, and the rest are invested in an open-end mutual fund. The same principle was applied by the Long Island Lighting Company which recently adopted an equity annuity retirement plan.

WHILE the thought of putting pension dollars in stocks might

seem like a great risk, pension fund administrators have invested considerable amounts of funds in stocks which have proved both profitable and stable to the pension funds themselves, and also healthy for the economy as a whole. What is unique about a balanced equity fund is that both accrued pension fund shares and benefits during retirement would fluctuate with changes in the values of stocks—as “balanced” by the value and interest mounting from bonds and annuities. The plan outlined here would gear benefits rather than costs to changes in the cost of living.

While the balanced equity retirement plan does not provide a cure-all to the problems of adequate pension planning, it does represent an answer to a growing need. The number of people expected to reach retirement age is increasing. About 7 percent of our population is now aged sixty-five or over. By 1980 that figure is expected to reach 12 percent. Pension thinking must be modified now to insure that our future aged population receives adequate income throughout retirement. To put off treating this problem until it becomes acute might result in a great burden on the future work force and on the entire economy. ■

Lights Out for Coal?



by Hartley E. Howe

The coal industry is engaged in a desperate self-analysis, for the next two decades will bring either revival or death

ONE DAY last June the Maine Central Railroad polished up towering, black Engine No. 470, its last steam locomotive, and sent it on a final round trip between Portland and Bangor. People from all over the United States wrote for tickets. No. 470 is now being installed as a monument in a public park. From now on all Maine Central trains will be drawn by diesel locomotives.

This sort of thing is happening all over the country; and it is of more than sentimental interest. For with the steamers disappears one of the big markets for coal, long the basic raw material of our industrial civilization. Since 1944 annual railroad purchases of soft coal have dropped from 135 million to 28 million tons—and they are still going down.

For this and other reasons, coal

is in trouble. The industry is closing mines, skipping dividends, dropping more miners and appealing for Government aid.

Figures tell the story. In 1954 bituminous (soft coal) production through June 26 was some 18 per cent below the comparable period of 1953, which itself was a long way from breaking any records. Coal experts are gloomily predicting that 1954's total bituminous production (bituminous is the giant of coal, ten times the size of the anthracite industry) will fall to around 400 million tons—less than the annual amount mined way back in 1910!

Employment has fallen as swiftly. Soft and hard coal mines together employed last spring only half the workers they did in 1948. And even this shrunken force of some 277,000 was working only

two or three days a week.

Some of this decline, of course, reflects the current slowdown of heavy industries, particularly steel, a big coal buyer. But actually it continues a long-term downtrend that began in the prosperous twenties, when coal failed to match its World War I production record.

What started coal on the skids was a combination of factors: oil burners, management-labor disputes in the twenties and rising prices of coal, which helped oil to spread into the industrial market.

The coal industry has now developed furnaces that require little more attention than an oil burner. The price of coal at the mine has actually fallen in the past five years. Labor relations have been comparatively tranquil. Why, then, is coal slipping?

FOR one thing, the bottom has dropped out of the overseas export market. By 1953 U. S. foreign aid was being used to revive the European coal-mining industry. Bituminous exports overseas dropped to 14 million tons, less than one-third of what they were in 1947, while anthracite exports almost vanished. This year looks worse.

The decline in the number of

Hartley E. Howe, a public relations executive, devotes most of his freelance writing to popularizing gains made in the field of technology.

coal-heated dwellings tells the story of the slump in another market—and one that is almost the sole outlet for anthracite. Despite automatic coal furnaces, there were 4 million *fewer* coal-heated houses in 1950 than in 1940. Coal's share of the house-heating market is at present just 35 percent of the total.

In addition, the rapid growth of pipelines now allows natural gas to compete successfully with coal in markets thousands of miles from the gas field. Between 1942 and 1953 about 53,000 miles of pipelines received authorization by the Federal Power Commission. The coal industry also resents the importation of foreign "residual oil" for industrial markets along the Atlantic coast. Residual oil is what is left after gasoline and other petroleum products have been distilled out.

As if all this weren't enough, much of the delivered wholesale cost of coal lies beyond the control of the industry. In many cases the rail charge equals the minehead cost; in some it is actually greater.

IRONICALLY, the coal industry is suffering hard times at the very moment that its future importance to the United States is being acknowledged as never before. Our economy depends for much of its strength on its possession

of half the world's energy resources. First in World War II, then in the boom, we spent our petroleum and natural gas resources with a lavish hand. Now we are realizing that our reserves of these desirable fuels are limited.

Just what reserves of natural gas and petroleum we have available is hotly disputed among the experts. But whatever they may be, they are dwarfed by our 1.2-trillion-ton recoverable reserves of coal, which makes up over 90 percent of our fossil energy reserves today—enough for anywhere from 200 to 1,200 years.

Unless atomic energy for peacetime uses is developed at a faster rate, we shall have to return to coal someday as our major source of energy. But even on a much shorter-term basis the future of the coal industry seems bright.

The President's Materials Policy Commission in 1952 predicted that while the position of coal among the nation's total energy producers would continue to drop, the actual tonnage mined and used would increase to meet the needs of our expanding economy. It is estimated that the industry will be turning out some 815 million tons a year by 1975—more than twice this year's probable figure.

This is sweet music to the coal industry's ears, but it doesn't help

the bad situation existing today. The 8,000-odd soft coal mines in the country are owned by about 5,000 operating companies. Less than 2,000 of these make enough to pay a Federal income tax. Only fifty-one mines produce as much as a million tons or more per year. The largest company in the country, Pittsburgh Consolidation, turned out less than 5 percent of our soft coal production in 1950. The great majority of mine owners are not prepared to weather a decade of hard times.

ALL THIS year the industry has been fermenting with meetings and plans to meet its crisis. Traditionally, the first steps are to cut wages and lower prices. Wage-cutting is said to have appeared among the smaller mines, but it seems to have made little headway among the larger producers or in the industry as a whole. The owners have a thorough respect for John L. Lewis. He has told them: "There isn't going to be any negotiated wage decrease in the mining industry, bituminous or anthracite . . . on that rock I stake my Ebenezer." There doesn't seem to be much enthusiasm for price-cutting, either.

However, it has been reported that some coal executives—unnamed—believe that competition within the industry is more harmful than competition from rival

fuels. Their feeling is that the coal industry must be stabilized by eliminating the high-cost companies and merging the low-cost units. Five or six big companies dominating the industry would be a good thing, in this view. Some merger moves are already in the planning stage.

Obviously this approach to the industry's problems has little appeal to many higher-cost producers or to the smaller mine owners who want to keep their independence. But there are other programs more widely backed and based on broader principles.

These programs point out the need for keeping the coal industry going, at least at its present levels, as a measure of national defense. Coal miners cannot be trained overnight, it is declared, nor can a shutdown mine be easily reopened—sometimes it is impossible because of flooding. And if enemy submarines were to close the sea lanes to our oil tankers, we would need all the coal we could get, in a hurry.

AMONG the foremost proposals to date is a demand for a Federal limitation on the import of residual oil. Another popular demand is that the Government do something to lower coal freight rates. One idea is to ask for a coal freight subsidy and a rate differential for long-haul shippers.

Greater use of coal in Government buildings and installations is suggested repeatedly. An increase of the coal depletion allowance for tax purposes from the present 5 percent to 10 percent is also suggested. The 27.5 percent allowance now granted oil producers is viewed with envy and bitterness.

Most far-reaching of all these proposals is the one advanced by both labor and management—the establishment of a "National Fuels Policy." Such a policy, spelled out, would mean that the competitive oil and gas fuels would be utilized first for military purposes, secondly for lubrication and liquid fuels, and finally for power and heat *only* after these other needs have been met. This elevates to the dignity of a national policy the attempts by coal industry representatives to persuade the Federal Power Commission to prevent what they claim is the "dumping" of surplus gas on the boiler fuel market.

Other suggestions urged on the Government would boost U. S. exports to Japan, provide more Federal funds for coal research and set up a liaison officer for coal at the cabinet level.

So far these proposals have been given little encouragement by an Administration which favors low trade barriers, Governmental economy and a minimum of Gov-

ernmental interference in the economic field. Interior Department officials have shown no enthusiasm for any aid other than increased research, while a delegation of coal representatives that presented their views directly to the White House in June went away with no visible results other than a promise, since fulfilled, that a commission would be appointed to study the industry's problems.

IN ANY CASE, most of these proposals seem to strike at the symptoms rather than at the basic causes of coal's difficulties. The need to cut production costs would seem to be fundamental. So is the need for cheaper ways to get coal to the consumer. New markets have to be developed. As everyone in labor, industry and Government alike agrees, more research is essential.

The progress already made with coal research program, backed with less than one-fifth the money the oil companies give their research, shows what a valuable potential is there. American coal mines, for example, are already far ahead of overseas coal industries in productivity per miner, thanks to mechanization of the separate processes of cutting, loading and hauling. New machines combine these into a continuous operation that offers hope of new savings.

More radical in its approach is a project to burn the coal right underground to manufacture gas. So far the gas made by this process has been too low in quality to be worth piping any distance. But gas turbines might use such low-energy fuel right at the mine entrance and make the process pay off.

There are hopeful signs in the transportation field as well. An increased use of waterborne transit might cut out coal shipping costs. More startling is an installation by Pittsburgh Consolidation, which has found it feasible to pipe coal in a "slurry"—half water—over considerable distances. Now it is studying the practicality of such a pipeline between Georgetown, Ohio, and Cleveland. The 110-mile project would cost \$7,500,000, plus a \$2,500,000 terminal, but would save an estimated \$1.25 a ton over rail freight for the trip.

Equally striking is the proposal for cross-country belt conveyers. The 1955 session of the Ohio Legislature will be asked to authorize such a belt line as a common carrier over a 100-mile route between the Ohio River and Lake Erie.

AS FOR the development of new uses for coal, the most hopeful prospects seem to be in the field of liquid fuels and coal chemicals.

The costs of liquid fuels produced from coal are not yet competitive, but Union Carbide & Carbon Corporation has already spent \$11,000,000 on a coal chemical plant to utilize 300 to 600 tons a day.

The further development of these projects, and many others, such as the coal-burning gas-turbine locomotive, requires money—lots of it. Money to pay for the research and development necessary to make coal profitable has been hard to attract while returns have been so low.

Here is where the division of the industry into many small units creates difficulties. Even the largest of the coal producers is small compared to the big oil companies. And the financial record of the industry does not inspire great confidence in investors who might be approached to put up the money for expanded research. As a standard investment guide puts it, profit margins remain narrow, earning prospects are unfavorable and a reduction in dividends is probable.

Experts figure that a ton of soft coal a year requires an investment of between \$10 and \$20 in equipment; a ton of anthracite, \$20. These figures may be low for the requirements of future installations. The soft coal industry estimates that to reach a billion-ton year by 1975—not a tremendous increase over present

capacity, although two-and-one-half times present production—would mean an average annual investment of \$333,000,000 in underground mine equipment and \$86,000,000 in surface mines.

WHERE is the money to come from?

The Government can, perhaps, legitimately be asked to step up its coal research when the survival of the industry is so important to the nation's economy. Other funds may be obtained from coal's customers—steel, chemicals and the big utilities. Whether any of these will be willing to put money into production facilities, thereby in effect extending the captive mine system, remains to be seen. Even oil companies may someday be a source of capital for the coal industry as they seek liquid fuels and chemicals to supply their customers. But that day still seems a good way off.

In the meantime, perhaps the contraction of the industry into fewer, but stronger units is the only solution. But where that would leave the men who mine coal, and the mountain towns that depend on it, is not clear.

If the miners drift away to other industries, and their towns fall into dilapidation, will other men build other towns in that future day when we once again need plenty of coal? ■

*Increasing attention to the problems of job satisfaction
has developed the concept of "job enlargement"
—that of adapting the machine to the man*

INDUSTRY DOES NOT WANT HUMAN ROBOTS

LABOR: *a man coins himself unto his labor; turns his day, his strength, his thought, his affection into some product which remains as the visible sign of his power."*

When Ralph Waldo Emerson thus declared what he thought of human labor ninety years ago, his lecture-hall audience probably thrilled at having one of their prime cultural convictions plucked from their breasts and expressed in such winging language. Emerson spoke for most Americans of his time.

Today, if some popular philosopher were to make the same statement across the TV screens of the nation, several million frowns would signal bewilderment or antipathy. Enthusiasm for labor or work as such no longer characterizes many Americans.

It is not that we have become lazy as a nation; rather, many of us now consider work to be simply a means to an end. While we continue to be as progress-minded as ever, we have turned

over much of the responsibility for the drive ahead to productive machinery. Meanwhile, we apply ourselves more in other directions.

The old-time work ethic and much of the old-time natural good feeling of exercising one's head and hands constructively have largely given way to a frame of mind whereby we "realize our capacities" in leisure-time activities. Of course, the time and money we have to expend on fun and leisure, and the quality and range of the leisure activity available, have increased. But the question remains: Should the satisfaction to be gained from doing a good day's work on the job be replaced?

As part of the general dwindling of the zest for work, many employed Americans today find their assigned tasks too simple, dull and boring. This applies particularly in manufacturing and in clerical work.

In the mass tasks of production and paper-handling, efficiency experts have strived to reduce to a

minimum the number and complexity of mental stirrings and muscular lurches. Aiming for greater productivity, engineers and time-study men have, to a considerable extent, shaped the men and women who work with machines into complementary units of organic apparatus, without giving much thought to their feelings other than to provide for rest and safety.

As a result, millions of Americans today perform at a pace approximating that of people in a detached trance or at a kaffeeklatch. Boredom has also given rise to much active distaste and hostility, which acts to reduce personal output. It is generally conceded that very few industrial and clerical workers are doing the amount of work of which they are capable. A vast reservoir of human energy and initiative lies waiting to be tapped.

A SURVEY by the Opinion Research Corporation in 1951 sampled the attitudes of a cross-section of 1,245 manual and white-collar employees of manufacturing companies. They were asked: "Do you feel the workers in your department (office) are already turning out as much work in a day as they can, or could they do more?" Thirty-four percent replied, "Could do more." Another 11 percent said, "Some could,

some could not." Only half of those interviewed thought they and their fellow workers were "turning out all we can."

Well aware of the loss in efficiency and the long-run social threat from dissatisfaction among their rank and file, employers have tried many curatives. Apart from attention (spontaneous and forced) to wages, standard fringe benefits and fixed working conditions, management has resorted to a rather heady array of "human touches."

Among these, merit badges, picnics and treats of company products go way back. Newer measures include color dynamics, umbrellas for going home in rainy weather, piped-in music and personal counseling on such matters as the adoption of children. A great chemical concern finances a male chorus which has its own \$40,000 auditorium. A chocolate manufacturer sends a nine-month supply of baby food to every employee's wife who gives birth to a child.

But these are external measures. They help, but they do not get to the heart of the problem.

The greater need—and there is growing awareness of it—is to shift emphasis from getting the most out of the machine to getting the most out of the man. The name being given to the new approach is "job enlargement."

To quote a pioneer, J. Douglas Elliott of the Detroit Edison Company:

"We spend a great deal of time and effort in determining the capability of existing... machines and in utilizing them to the fullest extent, but we are not prone to extend ourselves in evaluating and fully utilizing the capabilities of our people. . . .

"We can enlarge the job of the worker, therefore, not only to make his job less monotonous or less repetitive, but also to give him a variety of tasks that require a broader knowledge and to increase the element of judgment in his job to give him more opportunity to do some creative thinking of his own."

IF A young legend can be credited, job enlargement got an important boost under accidental or spur-of-the-moment circumstances. According to a story in *The Wall Street Journal*, Thomas J. Watson, Jr., president of the International Business Machines Corporation (IBM), was inspecting the company's huge plant in Endicott, New York, one day early in World War II, when he was accosted by a lady drill-press operator.

The lady asked if she might be allowed to do certain things forbidden by the foreman on her line, who "had his orders." She

said she would like to "set up" her own machine for each new task and would like to work on a variety of size and shape parts, not just two or three. It is not reported whether Mr. Watson committed himself on the spot, but in a few days the lady and several co-workers were given new responsibilities as a test.

When this experiment worked, others were tried with additional groups. Output speeded up and costs dropped. From a ratio of one "set-up" man to eleven operators in 1943, the Endicott plant progressed to a ratio of one to forty-eight in three years; then to no set-up men by 1950. By this time job enlargement had become general policy for IBM.

Dwayne Orton, the company's director of education, says, "Job enlargement reverses the trend which carried simplification to the point of job deterioration." From IBM's experience he gives four steps in job enlargement that most manufacturing and clerical employers can follow.

The first need, says Orton, is to teach the worker how his operation fits into making the finished product. This is done with plant tours, lecture discussions, pictures and demonstrations of the services his product performs for the consumer.

Next, the employee should be instructed in the "ins and outs"

of the operations which precede and follow his. Third, he should be rotated among these jobs.

Most important, "the actual enlargement of the job consists of having the operator perform a longer sequence of operations and be responsible for testing the quality of his work. Applied in a metal-working machine shop, this means that the operator would set up the machine, grind and adjust his tools, operate the machine, and inspect his work. Thus job impoverishment gives way to job enrichment."

IN JOB enlargement for office workers, the Detroit Edison Company has led the field—though closely followed by several insurance companies. J. Douglas Elliott, quoted above, manages the big customers' billing department, and he has described a number of ways in which his department has enlarged jobs.

One example cites how the new approach was used with a number of people working together: "We have three machine work-groups. The work flows from machine to machine within and between these groups in a traditional production line fashion. As a result, we had many specialized machine jobs within each of the work groups. Such a high degree of specialization began to take its toll in low employee morale and

in lack of flexibility of operations. So we established one machine-job classification in each work group, requiring each operator to be able to perform any job in the group. . . .

"Such free movement of employees promotes teamwork not formerly prevalent. When work is running smoothly, the operators rotate between machines according to their collective choosing."

AMONG other organizations looking into job enlargement, the auto companies are prominent. Sears Roebuck & Co. and other merchandisers are beginning to apply it to record-keeping, storing, materials handling and shipping. Many companies, particularly small ones, are applying the principle without formal designation of it as anything new.

Men like Orton and Elliott believe job enlargement can't miss. They think its adoption on a big scale is inevitable. But they admit that practical difficulties do exist. The most obvious of these, of course, is that many workers would not want job enlargement and could not take it if they did. To a considerable extent the dull, undemanding jobs have *attracted* the worker of low potential.

Where mental capacity is the governing factor, there is little hope. Where attitude is the obstacle, it is just a matter of time.

Beyond this there is the question of where labor unions fit in. In many trades and industries job classifications have been laid down rigidly and pay rates are based upon such classifications. No man steps beyond the bounds of his labeled skill or responsibility. In plants where suspicion or hostility prevail in labor relations, it will be a long time before some jobs outgrow present dimensions.

For wholesale application of job enlargement, participation by unions in redefining job responsibilities will be a practical, if at times not congenial, necessity. Some unions may hang back; some may respond with alacrity. A good many employers may balk at this for fear that participation by unions in job enlargement would lead to "co-determination," the sharing by unions of managerial decisions.

Of course, the issue of union-management prerogatives enters into every development in industrial relations; it would be a pity if this blocked over-all progress.

Job enlargement emphasizes *people*. In a way, it is glamorous, and that may be another pitfall.

Because job enlargement is so easy to think about, dream about and talk about, it may seem to many to be primarily a matter of the right notion, inspiration and attitude. But unless it is directed into organized, step-by-step im-

plementation, the notion may fizzle to little purpose.

To many, also, it may appear that wherever they simply take a little pressure away from job simplification, job enlargement must follow. But it won't be that easy.

With all the difficulties, the direction seems clear enough. The dignity of the individual in American industry is being asserted, not just in mottoes and speeches, but in practice at the bench.

Job enlargement will spread. It will release the powers of many men and women to an extent that will surprise them as well as their employers. It will do much to restore the balance of democracy under our conditions of massive industrial organization and mechanization. It will give the individual more room and freedom within the necessarily supervised operations of the huge corporations. And it may do something for our cultural values.

With mechanization increasing every day, it may not be possible *or even desirable* (let's admit it, Mr. Emerson, up there) to restore work to the status of an end in itself. But job enlargement should certainly make it possible to restore or inject more purpose, variety, challenge, opportunity, excitement and life into the work we continue to do. ■

The ability of employers to guarantee annual wages depends upon the maintenance of a growing economy—for a “guarantee is only as sound as the strength of the guarantor.”

Can We 'Guarantee' an Annual Wage?



WHILE the American businessman constantly seeks new horizons of production and profit, the American worker seeks new benefits of wage security and status. The two goals are not mutually exclusive, although sometimes one is led to think so from the way the extreme partisans in labor-management negotiations have acted in the past.

Guaranteed annual wages are one of organized labor's newest and most controversial proposals. The blue-collar worker, disturbed by the fear that business fluctuations might lead to unemployment, is seeking assurance of a minimum fixed annual income. And though the controversy over the guaranteed wage has already begun to crystallize, labor's intent is not as clearly understood. The public at-large has been confused about what labor wants in a wage guarantee and whether it will

press for a guarantee or accept other benefits in its place.

The concept of a guaranteed annual wage is not new. As early as 1894 the National Wall Paper Company guaranteed eleven months of employment to its workers. Since then, many guarantee plans have been introduced, but none of them has covered large groups of workers like those who man the mass-production industries today.

The term “guaranteed annual wage” as it is presently used may apply to guarantees of employment or guarantees of wages, or both. Some existing plans assure only a set number of hours of yearly employment, while not stipulating the amount of income to be earned. Other plans guarantee a specified amount of yearly income to be distributed equally regardless of variations in the number of hours worked per week

or the number of work weeks. There is no definitive pattern in wage plans, since the nature and extent of the guarantee varies from industry to industry. Yet there is some pattern in their historical development.

Most of the agreements transacted during the early part of this century were informal—between employers and their small group of unorganized employees. With the growth of labor unions, there has been a trend toward incorporating these plans as part of the formal labor agreement. Today, guaranteed wage plans in collective bargaining agreements cover over a quarter of a million people.

AFTER 1914, a year of business recession, the guarantee plans emphasized private unemployment compensation arrangements. Companies took it upon themselves to give their regular employees some source of income during extended business slowdowns. The growth of state unemployment compensation under the Social Security Act of 1935 dampened interest in this type of plan.

The 1920s and 1930s witnessed a growing desire for assurances of continued employment. The trail-blazing guarantees of Geo. A. Hormel & Co., Procter & Gamble, and the Nunn-Bush Shoe Co. were introduced during this period. These are generally con-

sidered to be model wage plans by virtue of the nature of the guarantee to workers and the ultimate benefit to the businesses involved.

Hormel, one of the large meat-packing houses, guarantees fifty-two equal paychecks per year to every production and maintenance employee. This is done in the face of vast fluctuations in business activity due to the seasonal nature of livestock marketing and meat processing. Employees work a short week during slack periods, but they are expected to balance this out by working overtime during business spurts. The development of processed tinned meats, like famed "Spam," has made meat packing a year-round enterprise at Hormel.

The Procter & Gamble plan guarantees employment in another way. In 1923, the company established a plan which assured forty-eight weeks of employment per year, while not stipulating the length of the work week nor the prevailing wage rate. In 1933 and 1936 this plan was amended to guarantee only 75 percent of the forty-eight weeks. This lightened the burden of the guarantee. At the same time, Procter & Gamble took steps to change buying habits of dealers, develop out-of-season demand, diversify markets and add new products in order to keep business going. The require-

ments of the new production schedule have flattened out the seasonal rises and falls in employment.

The Nunn-Bush Shoe Company offers an employment guarantee and profit-sharing plan to employees with seniority. To employees with two or more years of service, it opens the profit-sharing plan and the right to participate evenly in available work. At the end of each month, 36 percent of the value of all goods produced at Nunn-Bush factories is paid into a group fund, after the cost of raw material is deducted. This is labor's share of the company earnings. The amount is then divided among eligible workers according to their pay differential. The company has promoted stable production by spreading out its selling campaigns and by producing stock for inventory. Steady employment, even if only on a part-time basis at reduced earnings, is virtually guaranteed.

YET none of these plans has met the special needs of the big labor unions. Although the unions are not in agreement on an over-all plan, there is some similarity in the new proposals they have individually formulated.

The most recent approach to the guaranteed annual wage idea, as tailored by unions in mass-production industries like steel, rub-

ber, electrical products and automobiles, is to gear guaranteed wages as a supplement, paid for by employers, to benefits already allowed under existing state unemployment laws. Although no real test has as yet developed, the United Steelworkers having already bargained their 1954 contract without a fight for guaranteed wages, the issue is expected to come up next year when the United Automobile Workers starts negotiations for a new, five-year contract. Business conditions should then be balmier, so guaranteed wages will be pursued with a clear conscience by the unions.

Yet, through all the complexity and diversity of guaranteed wage plans, one point is clear: labor, small and big, is trying to insure its economic stability and security.

For labor, guaranteed annual wages are a part of the productive, full-employment economy we all seek. Just as business has been trying to free itself from the depressing effects of cycles and seasonal variations, so labor is trying to avoid the repercussions these same cycles impose on their jobs and wage security.

YET guaranteed wage plans are a device for security when security does not exist elsewhere. Such plans become operative precisely at the time when business is suffering from a loss of income.

When a recession is widespread, the businessman suffers as much as the worker. The cyclical industries are the hardest hit and can least afford any extra burdens. And if this sad cycle were not so, there would be no need for guarantees as all.

When and if big labor makes a real bid for the guaranteed annual wage, there will be no controversy over the virtues of economic stability. The big question will be: How can you guarantee economic stability, if indeed it does not exist? Or, can guaranteed wages bring stability to labor—and to the rest of the economy as well?

Here, in brief, is how the arguments will probably shape up from both sides of the conference table.

Labor will feel that the guaranteed annual wage is not only a blessing to the worker, but a boon to the economy as well. A man with a steady income is a stable consumer. The cumulative effect of stabilized demand throughout the economy will tend to minimize the depressing fluctuations sometimes at work. Therefore, it is hoped, business would never get into the rut that finally causes unemployment.

Moreover, the unions will say that the guaranteed wage will be an incentive to the employer to take steps to stabilize production.

An employer carrying a guaranteed annual wage plan will want to keep his employees at work the year-round, rather than spend his money for idle time. Labor men will argue that through devices like stockpiling inventory, constant sales campaigns, development of out-of-season products, etc., the individual companies can further help to avoid the problem of production cutbacks.

THE unions have generally recognized that the financing of a guarantee would be a large-scale operation for individual companies. Consequently, they will encourage the use of reserve funds comprised of employer contributions in order to have money on hand should the need for wage payments arise. This gradual buildup of funds when the going is good, they will point up, would alleviate the strain of payments in slack times.

Management will probably concede that this argument for stabilizing the economy by the guaranteed annual wage has some merit, but it will point out that the sector of our economy which perpetuates wealth—investment expenditures—will be hurt.

Although guaranteed wages would serve somewhat to stabilize consumer buying power, management will wisely argue that this in itself could not stop a depres-

sion. A great deal of the lifeblood of our economy depends on investment in plant and equipment—not only for replacement but for the research and production of new products which in turn create new job markets. And it is this activity which keeps the American economy—business and labor—rolling forward.

Business will contend strongly that with money tied up in reserve funds or being paid out to unemployed workers, a great deal of the assets that might be used for countercyclical investment would go astray. Indeed, even in stable business times, the very funds which could create a larger share of the wealth for workers would be lying dormant.

FURTHERMORE, businessmen will underline the fact that production stabilization is realistic only in the sectors of industry that manufacture staple goods. The heavy and durable goods industries respond to the slightest variations in consumer demand and are hard hit by fluctuations in the purchase of new capital goods. It is safer to stockpile soap than washing machines. Even a steady consumer demand will channel itself toward new and improved products. The introduction of an in-

vention that makes old-style washing machines obsolete might well translate inventories into losses. Stabilizing present production is not always wise. The real key to business and economic stability for the nation, management will assert, is its readiness to adapt to the steady, but constantly changing demands of its customers, by researching and developing, by investing and producing, by creating rather than maintaining. Thus, it is believed, we will achieve economic stability without guarantees.

And so the issue will stand to be bargained by labor and management at the conference table. But whatever settlement they arrive at over the long-run, the public will be the third party to that agreement. For clearly, the guaranteed annual wage is a concept involving more than labor-management relations. The implications are clearly tied up with American economic growth. It bears restating that economic stability is a prudent goal, but in arriving at that goal we cannot jeopardize one sector of the economy for the benefit of another—and to the detriment of the whole. For indeed, any guarantee is only as sound as the strength of the guarantor. ■



We can divert the Communists from the armaments race by forcing them to match the productivity of our consumer economy

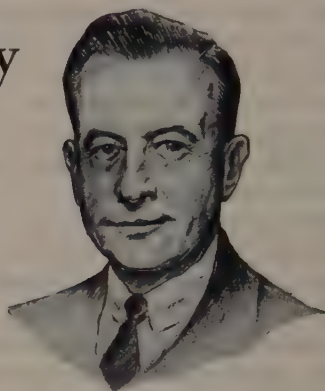
Using Our Economy As A Weapon

by Eric Johnston

WE WANT to balance our national budget and lower taxes. We seek to avoid inflation, to save for our old age in the assurance that the dollars we save will have a stable purchasing power. We would like to earn steady and adequate incomes, to own our own homes unencumbered and to achieve peace of mind. But all of our hopes can be dashed and smashed by a factor over which we do not have control and which no domestic business indicator can accurately foretell.

I am, of course, talking about what happens overseas. All sorts of people, policies and programs all over the world affect our nation; the fate of a beleaguered garrison in a remote steaming jungle affects our lives; so can a street riot in a far-off land or even a budget debate in a distant capital.

Whether isolationists and ultra-nationalists at home like it or not, other people have a voice in



our economic affairs, unsolicited and unwelcome though their voice may be. To make this ugly truth even more unpalatable, let me say bluntly that the one foreign nation above all others which influences our economy is the same one which directs an international conspiracy against us. I am referring, of course, to the Soviet Union. It is not too much of an exaggeration to say that the Kremlin can cause the United States Congress to appropriate funds for our defense more readily than our own Joint Chiefs of Staff can.

I BELIEVE that Communist aggressiveness in the main springs from insecurity, not from strength. Underneath the surface of bold talk

*Based on a recent address by Mr. Johnston before the
National Association of Direct Selling Companies.*

and bolder actions lies a feeling of inferiority and therefore of insecurity. It is recklessness born from nervousness. Moscow has furnished us plenty of evidence that the Communists do not have sufficient confidence in their way of life to feel that they can live side by side with the democracies indefinitely. Their system cannot stand open and honest comparison with ours.

The best defense is still an offense, so why shouldn't we use the entire American economy as a weapon to put counterpressure on those who are putting pressure on us? By the American economy I mean a combination of our resources, skills, experience and our system of turning them into human assets. Were we to use this powerful combination as a major instrument of our foreign policy, I suggest it would give us the best chance we would have at this time of effecting some semblance of peace.

THE prospects for some kind of living arrangement with the Soviet Union, it seems to me, will depend very largely on how effectively we can use the American economy to limit Russia's ability

Eric Johnston, president of the Motion Picture Association of America, Inc., speaks from a background of public service and personal contact with top Russian leaders.

to wage sustained modern warfare. The Soviet Union has by its actions and policies demonstrated that it can cause us to lower our *peace* potential. I submit it is within our power to cause the Russians to lower their *war* potential.

By a conscious and dedicated effort to help others achieve the kind of rewards that an economy like ours yields, we can demonstrate to the people of the Soviet Union the superiority of our system in terms of their personal lives. Our aim ought to be to compel the Kremlin, in self-defense against popular unrest in their domain, to bolster their own civilian economy at the expense of the Soviet war machine.

How can America bring this about? Specifically, how can we slow down the Russian military buildup?

I suggest it can be effected by using the American economy along three broad avenues—tempo, trade and demonstration—the advanced tempo of technological and scientific improvements, the stimulation of the whole range of trade and the demonstration of the superiority of the product of our economy.

The first approach in our campaign to force the Soviet Union to lower its war potential is tempo—technological tempo. We must compel the Soviet Union to

enter a race with us—not in armaments but in the translation of scientific and technical advances into human benefits. In the days ahead, we shall see startling technological developments which can be turned to enormous peacetime advantage.

Atomic power is already in our hands. With it we will be able to reverse an old industrial pattern. Instead of men seeking power sites and locating there, packaged power can seek out men, causing factories to spring up and industry to flourish where even now there is little hope for such a development. In the not-too-distant future, our scientists will be able to convert sea water into fresh water; and when they do, we may be able to make deserts bloom and Marxist doctrines wither.

It would have to be our firm resolve that we would keep so far ahead of the Russians in living standards that they would have to spend more and more of their time, energy and resources just trying to catch up with us to prevent unrest within their own domains.

But—and this is something we tend to overlook—we would fall far short of the mark if we limited ourselves to making economic improvements only in our own country. If we did not offer a helping hand to other free men,

we would only be inviting further envy and bitterness on which the Communists would be quick to capitalize (if such a word can be applied to Communists).

I DO NOT advocate sharing our wealth with others when we give them a helping hand. We have done more than enough of that. Besides, they might regard that form of help as ransom from the frightened rich. They might well regard themselves as mere spectators and nonparticipating beneficiaries. That kind of program at this stage would do little more than assure us of permanently poor relatives.

What we need to do is make greater efforts to share and foster our system of creating new wealth. This brings us to the second method of influencing the Kremlin to weaken its war potential—the stimulation of the whole range of trade, primarily among the world's free nations.

By trade, I mean the entire complex of economic relations that exists among societies. It embraces not only the voluntary exchange of commodities, but skills, knowledge and capital as well. We must place a new accent on trade among free nations. It must not be limited to the static distribution of old wealth, but must put accent on the dynamic creation of new wealth, not just here in

the United States, but especially abroad wherever it is welcomed. We must help others do for themselves what we do for ourselves. They will appreciate it more; they will accomplish more.

But if we are to make maximum impact on the Soviet economy with our own economy, we will have to demonstrate our superiority to the bureaucrats of communism as well as to the people in their grip. We have seen striking evidence of our ability to influence the Soviet economy in recent months. Surely, Malenkov's decision to devote more of Russian production to consumer goods can be traced to some of our activities. The Politburo was compelled to take a tack from its almost exclusive heavy industry and armaments course to bolster the civilian economy.

MALENKOV and Company were not indifferent to the East German revolt last year, brought on largely by the progress being made in American-supported West Germany.

Turkey's striking headway is touching off popular dissatisfaction in neighboring Bulgaria. Until recently Turkey imported wheat. Now she is exporting wheat. Likewise the results of American aid in Greece are causing dissatisfaction in nearby Communist Albania.

These next ten years will be the Big Decade. The fate of civilization in all probability will be decided during this crucial period. To the end that America can marshal her might, her talent and her energy for the showdown that is sure to come in the Big Decade, I urge that a program be shaped that will raise our sights, our aims and our targets.

Let us look to management, labor and education to pool their talents and make it available for such a program around the world; let us invite our philanthropic foundations and charitable institutions to underwrite the expenses of such talent; and let us call upon our Government to work with both groups in the areas where its cooperation is needed.

Let us encourage nations that want to work with us for decision in the Big Decade, to spell out their aspirations in programs which will have targets and deadlines, aims and objectives. Let their governments commit themselves to their people. Let their people dedicate themselves to the programs.

In that way, and only in that way, can free men of goodwill put the Communists on the defensive. In that way, and only in that way, can we assume leadership in the Big Decade. It is our only hope for a peaceful resolution of the critical conflict of our times. ■

Despite record-breaking progress under free competition, strong forces in Germany press for a return to fixed output, fixed markets and fixed prices—with America's interests deeply at stake

GERMAN CARTELS— A MENACE RETURNING?

by Michael L. Hoffman

IN GREEK TRAGEDY the hero customarily had one weakness which set in motion events that ultimately crushed and doomed him—the tragic flaw. It was, if I remember correctly, essential to the working out of the drama that the tragic flaw be something over which the hero had no control, something he could not alter at will.

It sometimes seems that nations, too, have their tragic flaws. The recent history of the West German economy—that part of Germany that is free to choose its economic policies—certainly suggests something of the kind. Here is an economy that has astonished the world by its rapid growth. It is not merely “recovery” that has taken place in Germany. It is the sudden appearance in the center of tired old Europe of an industrial society with something approaching the kind of dynamic expansion that we associate with Canada,

Australia or the United States.

The West German economy, in fact, is the wonder of the free world. And yet to listen to some of those who enjoy the finest fruits of this remarkable period of economic growth, one would think that they were living under an odious regime. Having been through a period when for the first time in this century German industry has operated without any appreciable restraint upon competition—and done very well, indeed—powerful interests nevertheless moan for the old days and want to put a stop to it all. Having witnessed the good results obtainable from a competitive system, they want only to get rid of it. Unwilling to accept the inevitable ups and downs of an economy in a state of rapid growth, they prefer, or so it seems from their speeches, to have an economy of stagnation. Instead of an industrial pattern designed to promote expansion, they want one design-

ed to fight perpetual depression.

If there is a tragic flaw in modern Germany, its short name is surely "cartel."

STOCKING and Watkins in their great work, *Cartels in Action*, define the genus as "an arrangement among, or on behalf of, producers engaged in the same line of business designed to limit or eliminate competition among them." This covers a lot of ground, as it was meant to do. Among other things, it covers cartels that are imposed on business by law, as well as secret agreements between giant concerns. It covers the complete elimination of competition by the use of common selling agencies for all firms in an industry, which fix prices and determine what each firm shall produce. "However much cartels may differ in their structure and form," Stocking and Watkins write, "they have one element in common. They seek to free producers from the influence of market forces and to subject the market to deliberate, concentrated controls, by and for producers. They represent a type of economic planning. . . ."

There are several reasons, of

Michael L. Hoffman, veteran correspondent of The New York Times, and expert on European economic affairs, has contributed several articles to past issues of CHALLENGE.

which three seem compelling, why a tendency on the part of German industry to get a stranglehold on itself should arouse concern in the United States. The first is that it is in the interest of the United States to have a progressive economy in the free countries of Europe—an economy able to ensure a steadily rising standard of living. This is particularly true with respect to Germany. The connection between economic stagnation and political instability is too well known to require elaboration. If a system dominated by the cartel does impede economic growth, the United States must be against it.

Secondly, the United States Government, believing that its own experience is valid for other industrial countries, was particularly active during the occupation in developing a policy of decartelization and of prohibiting the reconstitution of intra-industry agreements restricting competition. Law No. 56 of the Military Government embodied this policy. While some American officials were rather easily persuaded over Rhine wine and filet mignon that the whole idea was a lot of nonsense—"all very well for the States, my dear Colonel, but not a good thing for Germany"—American policy for Germany was, and remains strongly anti-cartel. This policy now can be expressed only

in diplomatic pressure, not occupation directives.

THIRDLY, and by far the most important, the future development of the American economy itself could be badly prejudiced by the firm establishment of an old-fashioned cartel economy in Germany, and, inevitably, in other parts of Western Europe. Many people believe that the United States might not survive as a predominantly private-enterprise economy in the midst of a Communist or even a Socialist world. For, from the viewpoint of economic development, a cartelized Europe and a socialized Europe differ only in degree. In neither is there room for private business to compete with entrenched institutions. In both there is regulation and bureaucratic control of trade. Indeed, political forces are such in modern Europe that a cartelized economy is likely to become very soon a socialized economy. Nationalization of industry has gone out of fashion in those democratic countries where it has been tried—*except* for industries known as, or suspected of being, cartels or “trusts.” Where the choice is between private bureaucracy or public bureaucracy, only the suppression of democratic processes could prevent Western European nations from choosing the latter. If it is important to

preserve a predominantly free-enterprise system in the United States, it is important for the United States to use every possible influence to discourage the cartel drive in Western Europe.

IT MAY be that the most important thing about the cartel issue in Western Europe today is that it *is* an issue. There is a drive to reestablish the German cartels. But there is also a vocal and effective opposition to cartels, both in Germany and elsewhere.

The present government of Germany, or at least its Minister of Economics, Dr. Erhard, is a strong anti-cartel force in that country. The cartelists, for the first time, are the opposition. A law is on its way through the Federal German Parliament which, while much weaker than our anti-trust laws, would establish a government policy against cartels. It is not yet clear whether the German law will presume all combinations for the purpose of regulating trade to be bad, or only those judged bad as the result of some sort of investigative procedure. But it would require publicity with respect to any such arrangements and make price fixing by private organizations of businesses illegal, except in times of “crisis” when it might become legal.

Both Britain and Sweden have

established machinery for inquiry into practices of large business groups and for the prohibition of cartel practices in certain cases, though not in all. In France, an influential minority in Parliament, and probably most economists, have by now come around to the view that "cartelism" is one of the reasons for France's economic rigidity and slow rate of growth.

PROFESSOR William Rappard of Geneva, looking at the American economy with all the youthful astonishment of which only the wisdom of seventy-one years is capable, finds four reasons for its superior productive power: the extensive use of mass-production techniques; the intimate cooperation between scientific research and industry; the "passion for productivity"; and the spirit of competition that pervades the country. In his recent book, Rappard reveals his strong suspicion that the last of these factors is the most important.

It is highly suggestive, to say the very least, that three of Rappard's qualities would also be very generally attributed to the German economy of the twentieth century. But only when the fourth, competition, was, so to speak, forced onto the Germans in the years following World War II did the economy show anything approaching the rate of economic

growth of the United States. It may be that Prof. Rappard has hit upon a simple statement of the key principles governing economic growth in advanced industrial economies.

He has also, I think, drawn attention to another important point. It is the spirit of competition, not laws, that really matters. Conversely, it is what has been called "cartel mentality" that needs to be eradicated from Europe.

It is, indeed, the question of economic progress that is at stake. The cartel has many attractions and the cartel mentality is by no means confined to Europeans. It is easy to show that from the viewpoint of any one industrial group, including workers, "order" is preferable to the "chaos of competition." There are real advantages for the various producing factors in a system that regulates production so that great swings in output are avoided. It is only when the viewpoint is shifted to that of the economy as a whole that the cartel appears as a drag on progress.

If there is anything that is clear about the economics of industrial states, it is that the real incomes of all the people in those states rise as, and only as, the productivity of labor rises at all levels of industry, agriculture and the distributive trades. It is equally

clear to me that to keep in operation obsolete and inefficient productive units prevents the economy from realizing the full benefit, in the form of productivity increases, of the available technical possibilities.

Now the essence of this cartel system in Europe is precisely the maintenance in operation of productive units that could not remain in operation under a system of competition. The worst evil is not, as many Americans believe, that the German cartels were too big, in the sense of controlling under one management too large a segment of the market. On the contrary, the system damaged Germany, and damages Europe, chiefly by keeping in production units that were *too small*, technologically speaking, for efficient operation.

THE contribution of anti-trust legislation in the United States is not that it has prevented bigness in industry. It quite obviously has not done so. The contribution of anti-trust policy to the American economy is that it has prevented businesses from ganging together to protect themselves should they

weaken or fall behind the times, at the expense of the consumer, and, ultimately, of economic growth. Cartels are bad precisely because they *do protect* the inefficient against the onslaughts of competitors. They prevent the process of concentration on efficiency and good service, which has become the trademark of American industry. The superior efficiency which has resulted from larger producing units is quite another matter. Cartels concentrate their "control" only to protect the old, the weak and the useless. We concentrate by driving the old, the weak and the useless to the wall.

The great significance of the present struggle in Western Germany over the revival of cartels is that its outcome is likely to determine whether or not Western Germany is to pace Europe in a period of industrial revival and growth in productivity. If the cartels win, "stability" and stagnation can be expected to result. All Americans must hope that the urge to organize control of markets in private hands is not a true classical tragic flaw in the German character, but something that reason and demonstration can overcome. ■

THE NATION'S WORK FORCE now represents a greater part of the population than at any other time for which records are available, according to data of the National Planning Association. In 1870 there were more than two dependents for every person gainfully employed; by 1900 that figure was 1.61 for each worker; and in 1952 it was 1.35.

Economic realities have a basis in common-sense attitudes about life in general—and these attitudes must be passed on to our children before they reach school age



by Mark C. Schinnerer

Hard Little Facts of Life

THERE is a colossal oversupply of people in my country who either never discovered some of the basic principles of economics or think that the economic laws have been repealed.

We hear much wailing that the schools have failed in this regard, and the cry is for required courses in economics. We have failed—in school and out—but the answer is not in required courses.

The problem is not one of the more complicated economic laws, such as supply and demand, diminishing returns, diminishing utility or substitution. I shall settle for just a few simple little economic facts—I like to call them eco-

nomics axioms—which some people these days seem to be trying their best to overlook.

There are three things which almost anyone can understand, and if these three are made a basic part of the education of our children, we can leave the more complicated principles to the experts. Here they are:

1) You cannot get something for nothing.

2) You cannot spend more than you have and remain solvent.

3) You cannot equalize ability by a handicap system.

Before we go further into these economic lessons, let us put on the blackboard a broader and more disturbing assertion of which the economics lessons are a part. The nation's most important teachers are failing in their assignments. Fewer and

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fewer are doing their jobs.

I am not referring to classroom teachers or any other instructors employed by a Board of Education. These people work in our *second* most important educational institution. The *most* important "classroom" is the home; the parents are the teachers. But, in multitudes of these "classrooms," parents are shirking and fumbling their responsibilities.

It is obvious today that parents, who must give the first economic lessons, must learn some simple economics themselves before they can teach it. Many parents I know are inclined to believe that they *can* get something for nothing. And their children easily adopt this hazardous notion.

Isn't this the psychological basis of gambling? Isn't this the basis of some of the crackpot schemes for creating prosperity without producing anything? Isn't this what "soldiering" on the job is all about? The notion that a person can get something for nothing messes up our thinking.

STRANGELY enough, some parents and some pupils are against assigned homework in school. They fail to realize that a student will get out of his studies about what he puts into them. Many parents complain about the marks their children receive or the grade level to which they are assigned.

I don't know any teachers who are not pleased to give their pupils just as high marks as they possibly can, based upon accomplishment. A teacher who gives a higher mark than the pupil earns is helping the pupil develop the idea that he *can* get something for nothing. The youngster generally knows, deep in his mind, what he really earned.

A few Saturdays ago, while shopping at the corner drugstore, I noticed a handsome young man, seven or eight years old, perched up sociably at the soda bar, finishing an ice cream cone. He called to the counter girl, "Another giant size, please." As it was nearly noon, I said to him, "What will you do when your mother gets your lunch ready?" With a grin, the druggist said, "That won't bother Jimmy. He spends 50 cents, sometimes a dollar, here every day." I asked the boy how he got that much money. "I don't do anything," he replied. "Daddy gives it to me."

I still can't get it out of my head that such generous allowance for treats may be throwing hazards needlessly in the path of our youngsters. These years, when the Jimmies are learning so much so fast, should be used to get across the idea that we are all expected to give something for benefits—gladly.

It is good for children to have

money to manage, but it should not just be handed to them by their parents. They should do something to earn it.

As a gangling teen-ager, back in Vigo County, Indiana, I had a regular routine of farm work, for which I got no money. It was simply work that had to be done: cutting wood for the fire, feeding the stock, pumping water. Trapping was my method for getting cash, which, by the way, was scarce in those days.

My dad impressed upon me two things: one, when you are on a job a full day, do a full day's work, plus just a little more. You can face anybody after that. Two, always do more than you are paid to do. I am sure that the men and women who really get ahead in this world follow such advice.

The folly of the welfare state was shown up by an example next door which contrasted sharply with my father's credo. I didn't then realize the significance of what I was learning, but it keeps coming back across the years. It was a simple but irrevocable demonstration that you only get from life what you put into it.

An elderly couple lived near us with their 35-year-old daughter, a distressing picture of someone who thought the world owed her a living. She had trained at a business college and came out a

pretty good stenographer, but she never took a job. Instead, she remained at home. She told her parents, "You brought me into the world. It's up to you to take care of me." This parasitic maiden sat on her porch, or in the family living room, withering from lack of purpose. She was truly unhappy. After a while nobody wanted to be around this woman who was dolefully determined to get everything without giving anything in return. She died in her forties, and I am certain her rejection of responsibility was a contributing cause.

Parents and modern society often neglect another hard little economic fact: you can't spend more than you have and remain solvent. According to Webster, "solvent" is the state of being able to pay one's debts, of meeting all financial responsibilities. But we have been conditioned in our country to the idea that we can live on borrowed money. Even in a year when we are not at war, the Government feels it will not be able to balance the budget. Many people feel, "If the Government can do it, why can't I?"

THE habit of borrowing against the future is a great deal like drug addiction. Mr. Jones buys some household goods or a car or clothing, or all three, on credit. These purchases make him feel

good—even luxurious. So he goes and buys more goods on credit.

Soon the mortgage-ridden Mr. Jones has dug a pit of debt so deep for himself that he will never get out. Overspending and taking a drug may let a person feel good for a short time, but in the long pull they are both ruinous.

The Cleveland Board of Education seems to have proved the advantages of pay-as-you-go. We are now about half-way through a three-year building program costing \$14,000,000, and it is all being paid for without going into debt. If the Board had issued bonds for these buildings, the interest would have been nearly \$5,000,000. With the money saved, the Board will build four large schools, a bonus for *not* going into debt.

Finally, you cannot equalize ability among people by providing artificial handicaps. The Declaration of Independence states that all men are created equal. That is true insofar as equal opportunity exists for all men. But not all people are of equal ability.

FOR every advance made by the human race, you will find that unusual people have been in the

forefront. When an advance is made, all of mankind, no matter what their mentalities, benefit from this step forward. The advance thinkers and doers, in science, education, business and the professions, must be encouraged in order to maintain our American way of running things.

In school, let us not cut down our superior students to the level of the average. Let us recognize that we need superior minds to achieve that superior world we all want so badly. Let's leave the handicap system to the race track boys. Competition has a place in America, thank goodness, and I would not want it any other way.

FOR ONE THING, we can stop belittling the so-called "brain" and the successful man. Without their contributions, inspired by competition, we would be sitting back in a kind of Stone Age just vegetating and not getting much done.

In every day, in school or at home, adults and children experience incidents in which the three fundamentals are present. Just repeatedly bringing them to the pupil's consciousness will work wonders for our economic future. ■



*Are farm price supports
entirely to blame?*

The High Cost of Eating

by Ross L. Holman

"I GO to my grocer to buy butter. It's plentiful, but I pay 81 cents a pound for it. Cheese is plentiful, too, but it is high. Every time there is a surplus of a food product the Government uses my tax money to buy it into a scarcity. Then it makes me pay through the nose. What are they trying to do?"

This is not an exact quotation, but it is typical of what housewives are saying about food prices.

The 81-cent complaint about butter was made before Secretary Benson began flexing the support price of the commodity from 90 percent parity down toward 75 percent. But Congress has raised this again.

Who is to blame for the high cost of eating about which consumers complain? How much of

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it is due to the effort to guarantee a parity price to farmers?

Parity means today's crop must sell for enough to enable a farmer to buy as much as he could from the sale of that crop in the base period of 1910-14. This was a time when the farmer was supposed to be enjoying a reasonable amount of prosperity. But what about the prosperity of those who shop in the food markets? With huge new crop surpluses looming, why doesn't Congress let prices flex themselves into their own natural level?

Bound up in the problem is the fact that during the past two years or so the farmer has taken a beating in income. Since 1951, crop prices have declined 17 percent, while the cost of operating a farm has declined only three percent. Would Congress be doing the consumer a favor by hammering down the price of food to a level that would bankrupt the men who produce it?



The average farmer agrees that storing up billions of dollars worth of commodities is bad, and that high retail prices hurt the consumer. Does he feel responsible? "Some of the prices you pay for flour and for wool sweaters *may* be unreasonable," the farmer concedes, "but don't look at me!"

The factor to which farmers would like to draw more attention is the increasing cost of getting the raw products from him to the consumer. Some months ago the Senate Agricultural Committee was holding hearings on the plight of the American wool growers who, like other farm producers, were selling their product on a declining market. When a delegation of wool brokers and suit manufacturers presented their side of the case, Senator Karl Mundt, (R—N. Dak.) asked, "What part of the \$50 paid for a man's suit at the retail end goes to the farmer who produced the wool?" The answer was: less than \$5.

THE Committee learned that out of every dollar the consumer pays for cotton articles of clothing, the farmer gets 12.5 cents, or 31 cents out of the price of a \$3.64 shirt. If cotton were supported at 100 percent of parity, the price at which the farmer could sell it would make very little difference

on what the housewife has to pay for her cotton blouse.

It was found that a large part of what the consumer pays compensates for a variety of handling, processing and other costs beyond the farmer's control. Actually most of these middlemen's costs have been going up while the price of farm products, despite parity supports, has been declining.

THE Committee discovered that among the costs of distribution, wages account for more than half. Freight rates, which also figure in consumer costs, have gone up 70 percent and express rates 94 percent. Trucking rates, electricity costs, telephone charges, costs of processing, packaging and so on have increased.

Official figures show that in nine years the farmer's share of the average food dollar has dropped from 53 cents to 45 cents. What the farmer has lost the distributor has gained.

I recently talked with a wheat grower. "I know the average city woman blames me for the 25 cents she paid for that loaf of bread," he said. "She doesn't know that we wheat growers got less than four cents of that quarter. In order to earn the four cents I got out of that loaf, I may gross \$30 an acre with a cost of around \$20 an acre. In short, from the four cents that I get

out of a 25-cent loaf, I may net as much as one cent."

However, despite the thesis that the farmer is not getting a fair share for his work and investment, there is a strong doubt, even among farm leaders themselves, whether the present system of price supports is the answer to the farmer's problems. Both the Farm Bureau and the Grange have tended somewhat toward flexible rather than rigid 90 percent supports. This coincides with the President's views.

THERE is also doubt among many agricultural authorities that any control measure so far adopted strikes very effectively at the basic problem of overproduction. It is pointed out that lower prices for wheat or other grains resulting from even flexible supports will not discourage overproduction. The individual farmer who gets a lower price per bushel will try to make up his per unit loss by growing more bushels. In 1930-32 farm prices were as low as they could be; yet growers planted a record acreage in an effort to make ends meet.

This brings up the question of whether there are too many farmers. Official figures show that the top 13.5 percent of the nation's farm operators get one-half of the total farm income, while the remaining 86.5 percent share

the other half. The operators in the top 13.5 percent work large acreages with highly mechanized mass production techniques. They are able to cut costs per bushel, per pound or bale to lowest possible levels.

Some authorities believe that a great reduction in the number of farmers, together with a great increase in larger and more efficiently managed acreages, would bring production control within easier reach.

Then again, many people doubt the moral phase of the Government's storage remedy. "With two-thirds of the world population on a starvation basis, is it right," they ask, "to freeze out of circulation so much food, or destroy it to keep prices up?"

But selling the surplus on the world market at a world market price does not seem fair to many American consumers. At a world price, even our "cold war" Russian enemies will be buying butter, for example, cheaper than the American consumer. The same would be true of other foods.

PRIce props on grains have caused some fantastic situations. In Iowa, farmers who formerly produced corn for feeding hogs have been turning their entire crop over to the Government. A Boone County, Iowa, farmer put his 3,200-bushel crop into storage

at a loan of \$1.54 a bushel from the Government. Then, to feed his hogs, he turned around and bought 1,100 bushels at \$1.30 from distressed farmers who lacked the storage facilities for a Government loan. If the market price doesn't eventually rise above \$1.54, the Government is stuck with the farmer's corn.

Even at that, many farm spokesmen insist that the support price for corn or wheat is just as fair as the Government-fixed minimum wage for labor, or the subsidies to roads, marine shipping and the airlines. They point to our tariffs to protect domestic goods and wages, and to our "handouts" to foreign governments.

Moreover, there is a feeling that the farmer deserves special consideration since he has to contend with many forces over which he has no control. The farmer has been called the greatest gambler on earth. He has to gamble on the weather, plant diseases, livestock epidemics, crop-destroying insects and tumbling markets.

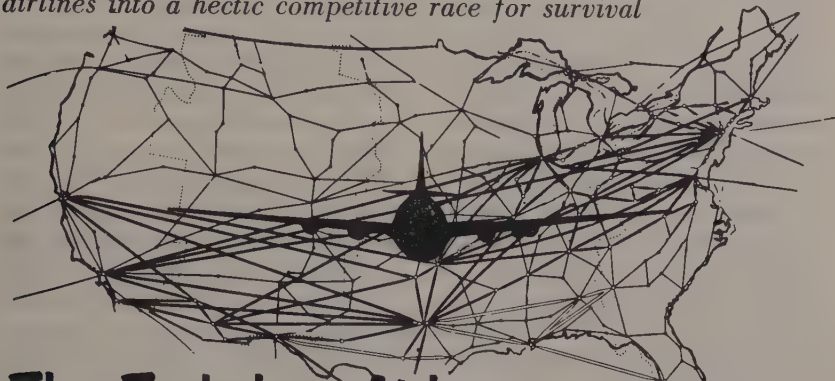
THE TWO BOGIES, distribution costs and overproduction, must be resolved before a happy solution to price supports can be found. Many remedies are being suggested and tried. Distribution costs may be cut by more direct

marketing to processors and retailers. Some of this can be done through pooling of crops and co-operative marketing.

As for overproduction, in addition to more rigid acreage controls, some have suggested a stepped-up distribution of free food for school lunches and for families on relief. A lowering of our tariffs that would in turn encourage greater purchases by foreign countries is also urged. Many say the Government and farm groups should go all-out in promoting greater consumption at home, using all forms of advertising and publicity. Not much is said about persuading some farmers to quit their land.

But these are short-term remedies. The greatest hope lies in a perceptible change in attitude. From many sides indications are rising that the idea of favoring the few to the disadvantage of the many is losing ground. The farmer's interests, as well as the nation's as a whole, lies in unselfish, broad-scale apportionment of efforts and rewards. This will take vast readjustments in the production, processing and distribution of commodities and goods which emanate from the farm. The farm subsidy problem will be with us for at least another generation. ■

A more rigid policy of Government subsidy has thrown the nation's airlines into a hectic competitive race for survival



The Turbulent Airplanes

by Holmes Alexander

AMERICAN commercial aviation today is a battle royal among airlines. The general goal is to take advantage of ever-increasing air travel and to cope with the special conditions laid down by the Civil Aeronautics Board and President Eisenhower's policy as drawn by the Air Coordinating Committee in May, 1954.

Ever since passage of the Civil Aeronautics Act in 1938, the Federal Government has stipulated that air transportation is a public utility, to be maintained and regulated at public expense if necessary. The Government, through its military departments and the Post Office, is the largest single

user of air transportation. Air mail service pay to the airlines has always been generous.

Military airlift and mail service pay are not regarded strictly as subsidies. On the other hand, if an airline, properly certificated by CAB and living up to all its safety and scheduling regulations as a public carrier, still cannot make a profit, it can be compensated in cash from the Federal Treasury. Under this system, American civil aviation has been a world wonder. The commercial fleet now stands at about 1,400 planes, representing an investment of over one billion dollars, an operating expense of another billion dollars and jobs for more than 105,000 highly skilled persons. In 1953 the certificated airlines took \$141,180,000 from the Government in

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mail pay and subsidies. But the same companies created postal revenue of \$151,900,000 and paid \$180,404,247 in assorted income and excise taxes.

Since commercial aviation is essential to our defense needs and our position of world leadership in commerce and trade, the CAB inclines to be progressive and liberal both as to subsidies and special exemptions where a case does not exactly fit the rulebook. But there are limitations to such a policy. There are points of no return in the matter of subsidization under our free-enterprise economy. President Eisenhower has attempted to define these difficult matters. His Air Coordinating Committee, headed by Under Secretary of Commerce Robert B. Murray, Jr., expressed a sort of super-policy which actually is to be regarded more as a goal than a rigid formula. Nevertheless, the Eisenhower *hope* for civil air transportation in this country can be simply stated in the single expression: qualified self-sufficiency.

WITH a new Government policy of discouraging the subsidy outlook, the competitive struggle for survival is bound to be sharper than ever before. The chips are down for the thirteen permanently certificated large airlines, or trunklines; the fourteen smaller

local service or "feeder" lines working under temporary licenses; the six large international American flag lines which are licensed for overseas operation in competition with foreign lines; the four medium-sized lines specifically licensed to carry freight on domestic and foreign routes; and the forty-five non-scheduled lines which are exempt from many regulations and operate under letters of registration to carry both passengers and cargo by the planeload. The non-skeds do not get mail service pay or subsidies.

Most important of these bouts is the one between the trunklines and the non-skeds. There are two bones of contention. One is Federal aid. The thirteen trunklines all date back to the original Civil Aeronautical Act of 1938. All of them owe their existence to the basic belief that air travel, being extremely important to the nation, requires and deserves Government money to get properly started. Until just recently, ten of these thirteen lines were self-supporting and had outgrown the need of subsidies for domestic flights. All thirteen carry the mail at a rate of 45 to 75 cents per ton-mile.

Non-scheduled lines are strictly a product of World War II. Hundreds of postwar aviators came to the CAB in the middle 1940s seeking licenses for commercial transport ventures. As an

experiment, the CAB gave some of them letters of registration and allowed them to have a try at something comparable to being "tramp" steamers of the sky.

THE second bone of contention is this free-lance status of the non-skeds. The non-skeds feel that they have justified their relative freedom by adopting new merchandising ideas and bringing the cost of air travel down to the mass population. All of these ideas have been substantially adopted by the trunklines, which are now asking Congress to tighten the law against non-certificated competition.

Local service or feeder lines, all of them beginners since World War II, are now in much the same state as the trunklines were in 1938. They need time to prove their stability. "Feeder" was a descriptive term which is no longer an exact one. These lines, it is true, do "feed" air passengers into the big cities where the trunklines take over. But they also connect many small cities to other small cities. Most feeder lines run above 90 percent capacity over weekends but drop down close to 15 percent in midweek. Since they are certificated to keep a regular schedule, they all operate at a financial loss.

It may be fairly asked: what would happen if the ACC anti-

subsidy policy went into effect? First of all, three of the thirteen main trunklines would fold up. Together these three are now being paid about \$615,000 to carry the mail and are drawing a total subsidy of more than \$3,000,000 annually. These are large sums, but they serve a very large need—that of giving air service to the vast areas of the American Southwest and Northeast. A far larger area would be bereft of service if the fourteen local service lines were closed down because of withdrawal of subsidies.

THE Eisenhower Administration does not intend to be ruthless in the move toward self-sufficiency. Officials say that the main purpose of the ACC report is reappraisal of service. In point of fact, two feeder lines, one in New England and one in Florida, areas where people are well-served by surface transportation, were recently allowed to discontinue. But a feeder line in the Rocky Mountains, where surface transportation is slow or nonexistent, was continued at considerable expense in the public interest.

There are some suggested solutions to the dilemma of the local service lines. One is wholesale purchases of gasoline and other supplies. Another is the use of mergers. No merger has occurred since the ACC report came out

with its recommendation of mergers. But there is speculation in the wind that new companies might be formed from various combinations of existing firms.

Physical changes in the structure of local service lines seem more probable as the final answer. The ideal short-haul carrier would be an easy-to-operate 30-place helicopter. But that is about five years away. The present status of helicopter service shows how much remains to be done. Just three certificated helicopter lines operate on short-haul runs.

THE main international American flag airlines are Pan American and Transworld. They are under a drum fire of attack by liberal statesmen, notably Senator Kennedy of Massachusetts and Senator Kilgore of West Virginia. These Senators contend that the CAB's request this year for \$141,000,000 in subsidies and mail pay can be readily cut to \$91,000,000 by eliminating "windfalls," mostly among the international carriers. A Supreme Court decision last February ruled that international carriers can no longer keep separate books, pocketing profits on one route and asking for subsidies on another. The total gain or loss figures must be shown to receive subsidy pay.

In the main, however, our international airlines are in the

same fix as our surface shiplines when it comes to meeting foreign competition. The American way of doing these things is more lavish, more safe, and more expensive. There are few cases where the nation could justifiably withdraw international air service in favor of foreign lines. What might be done, however, is to cut competition among the U. S. lines in overcrowded places like the Caribbean and South America.

Scheduled freight carriers, like feeder lines, are not yet attracting profitable pay loads. Four freight-only carriers have been certificated since World War II. Two of these have folded and the other two have merged.

Generally speaking, freight carriers have not been able to take slow cargo away from the railroads and surface ships, or fast cargo from dual-purpose airlines.

WE MAY now return to the most significant phase of competition in commercial aviation: the trunklines versus the non-skeds. It is also, in part, a trial contest between a subsidized system and a system which got started and continues to operate without Federal aid. The comparison is not really fair because the systems are dissimilar in many ways. You just cannot add apples and eggs. The issues, I think, can best be described by means of the argu-

ments the protagonists advance.

Trunks: You fellows claim you are not competing with us because you don't fly regular routes. But when a route is profitable, you fly it regularly enough—over 1,000 flights a year between New York and Miami. The only routes you don't fly are the non-profitable ones. We have to maintain these flights in the public interest.

Non-skeds: The point is that we fulfill a need beyond that of regular, deluxe travel. We showed you big fellows how to put the passenger seats closer together, do away with frills and lower the cost of flying through aircoach. We carry cargo when and where the customer demands. We can fly more cheaply because we have developed marketing efficiency.

Trunks: Efficiency, my foot! You don't have the same rigid inspection that we certificated airlines have. You skim the cream off our business, but you don't serve a public need. We claim that Congress ought to force you to take out certificates and become a regulated public utility like the rest of us.

Non-skeds: Public utility! That's a laugh. You are a monopoly. Your Big Four carry 85 percent of the mail. They do 60 percent of the domestic passenger business. Last year your total profits were 21 percent before and 12 percent after taxes.

Trunks: You have combines of your own. The overseas cargo group accounted for 84 percent of cargo miles by the last accounting. The passenger carrying group has a fleet of seventy planes. That's a bigger fleet than all but the very big trunklines have. As for profits, yours increased by 117 percent between 1951 and 1952, while ours hardly held their own.

Non-skeds: We deserve profits. We are innovators and pioneers.

Trunks: We were the innovators and pioneers of our own day. Safety is something that always interests the public. In 1953 our record was .06 fatality per 100,000,000 passenger miles. Yours was 11.1 for the same mileage.

SO IT GOES. There are many points of difference between the two systems. One is not necessarily better than the other. They are not comparable. We need them both. Air movement of persons and things has become an integral part of our economy and way of life. We have to keep pace with the Air Age tempo or be hopelessly out-produced and out-delivered by industrialized areas in Europe and South America.

Often the different systems within our air transportation industry will overlap and cause friction. But what of that? One way to keep 'em flying is to keep 'em fighting a little bit, too. ■

Today's stock market is buttressed by tens of thousands of small investors who annually buy shares with the intent to "stick"

Supermarket on Wall Street

by Sam Shulsky

DAY AFTER DAY, the financial headlines read: STOCKS REACH NEW HIGHS . . . DU PONT JUMPS 15½ POINTS . . . GENERAL MOTORS AT ALL-TIME PEAK.

Despite all the talk of recession, those who buy shares of American industry—whether for long-term investment or speculation—have been eager to pay the highest prices in history.

On the same day that the housewife, by shopping around, buys a \$34 kitchen radio for \$26, and while her husband is dickering for a \$250 discount on their new car, millions of Americans are paying the highest prices in history for General Electric and General Motors shares. The working man, whose overtime pay has become a thing of the past, turns to the financial pages to read that a few minutes of frenzied trading on the floor of the New York Stock Exchange has raised the market value of the Du Pont company nearly *three quarters of a billion dollars!*



In the language of the street (Main, not Wall): "What gives? Doesn't the stock market know business has slackened?"

Wall Street is, of course, not unmindful of the fact that 1954's rate of business activity will be slightly below that of 1953. But Wall Street this year has not been content to be merely a barometer of current business.

The financial community, looking beyond the week's car loadings, steel operating rate and electric power production sees long-range growth for this country at a rate which has not been matched in all its history. And the Street is willing to back this vision with money.

In other words, the stock market is saying: "Of course business has receded from the 1953 peak. Even so, 1954 will be the

second best year in history—and that is nothing to sneer at. But more important, with the new sources of power, new forms of transportation, of synthetic chemicals and of automatic production devices just now opening up—all supported by confidence in a business Administration—we have just begun to grow.”

Scientific and industrial progress in production, agriculture, metallurgy, medicine and education is accelerating at a rate never before known. Private and public expenditures for scientific and engineering research and development in 1953 totaled \$4,000,000,000—more than four times the 1941 outlay. And most of this vast sum is being directed to the development of new products and the improvement of old ones.

Despite any current oversupply of textiles, electrical appliances, etc., the long-range investor cannot lose sight of the projections which allot us a 220 to 230 million population in the next quarter century, with matching expansion in national output and private financial income.

If there are any pessimists on the long-range outlook for the United States, they have been unanimously silent.

Sam Shulsky, assistant financial editor of the New York Journal-American, has contributed several articles to past issues of CHALLENGE.

So much for the years ahead, from a domestic point of view.

Another factor in the stock market's strength is the international situation.

Despite all efforts, there seems little hope that within the next few years the great powers' tanks will be beaten into farm tractors. Unrest and contention between the great states seem destined to keep military spending at a high level. That means large Governmental expenditures, which mean deficits, which mean inflation.

Faced with this prospect, the men whose task it is to manage huge pools of capital do not want dollars. They want equities—shares in large, important industries which furnish the basic driving power for America in peace and war.

But the influence of the stock market goes further than merely putting its money weight behind the projection of economic “plus signs” for the future.

It may be argued that today's stock market has contributed not a little to cushioning the decline in business itself, and, in fact, has provided the psychological climate which at this writing seems to have succeeded in turning the business cycle upward.

The reason the securities market has been a positive and supporting influence on business (rather than merely reflecting the

current business trend) is the quality of the investment which has lifted the price index of industrial stocks to the highest point in twenty-five years. It is a solid, substantial demand which has shown no disposition to panic.

WHO ARE the large buyers of securities at advancing prices?

This country has always had large pools of investment capital which have left their mark on securities prices. But never have they been so many, so powerful and so constructive in approach and purpose as today.

Mutual stock funds, which manage the money of millions of small investors, are a modern-day phenomenon virtually unimportant a quarter century ago as market influences. As recently as fifteen years ago their total investment in the stock market was less than a half billion dollars. Today they have more than \$4,000,000,000 invested, a substantial majority of it in quality common stocks.

The constantly growing private pension funds siphon off millions of dollars weekly from corporate profits and payrolls, much of it invested in common stocks against the employees' retirement day.

With the inflationary history of the immediate past as their compelling force, many state legislatures have altered their savings bank and life insurance company

regulations, allowing these institutions to take part of their funds out of gilt-edged bonds, which were considered the *ne plus ultra* of 1890 investment programs, and place them in common stocks which react more directly with inflation.

It will have been noticed that the word "investment" has been overworked. What of the speculators—those fast-stepping traders who buy stocks at 11:00 a.m. and sell out at 2:30 p.m.? Don't they still steer their course by weekly car loadings, monthly earnings reports, rumors of excess inventories in this steel company, labor trouble in that chemical company?

THE speculators are still with us, and they continue to play an important and necessary role in our free market system. But their influence, pricewise, has been greatly diminished. Quick "in-and-out" trades have had less effect in the last couple of years than ever before in the history of our stock market. For example, the number of shares traded monthly on the New York Stock Exchange throughout 1953 and into this year has averaged only one percent of the total number of shares listed on the market and available for trading. By contrast, in 1929 the monthly rate was up to nearly 11 percent of all the stock listed; by 1920 it was 12 percent.

No, to the chagrin of the stock-brokers who make their living from trading commissions—irrespective of the course of prices—today's stock market is not a "champagne-and-slippers" affair. But it has created the fourth modern stabilizing influence in the market: the small investor.

Never before has the average American had as many opportunities to invest his money in stocks as he has today.

The mutual funds—mentioned above—have channeled billions of his dollars into securities at the rate of as little as \$25 per month per individual.

The Stock Exchange only this last January inaugurated a plan by which anyone can accumulate shares of any company listed there at a rate as low as \$40 every three months.

Hundreds of large brokerage houses across the country have set up investment-club programs for their clients.

ALL these are aimed at helping the average wage earner or small businessman put some of his surplus funds to work in shares of American industry—for long-term growth and income.

Despite the sneers of those who condemn these programs as tricks to mislead the sheep to another 1929 slaughter, the small investor has given no indication that he

feels he is jeopardizing his hard-earned money.

In the first place, the vast majority of these plans are aimed at acquiring quality stocks—and holding them.

But even more important, the buying is entirely for cash. There is not a penny of "margin"—or credit—involved. Business may vary, stock prices may go up or down, but that terrifying telegram asking for "more margin" will never be delivered at the doors of today's small pay-as-you-go investors. Whatever they have bought, they have paid for. It is all theirs.

This, then, is the story of the advancing stock market of the last years, and of the last months in which business has felt the second tremors of recession since World War II.

It has been largely a quality stock market. (Many shares of second- and third-rate companies have not kept pace with the climbing indices.) It has been a relatively stable market, although undoubtedly there will be periods of weakness and even violent reaction as the months pass.

But it has been a constructive stock market—aided by the influence of a new-type investor—which has not only provided leadership for business today, but has buttressed our economy's faith in its future. ■

Allen T. Sherman, whose fishing enterprises are worldwide, waited twenty-five years to crack the Russian monopoly on Caspian sturgeon

Fishing in Troubled Waters

by Eric Berger

TASTY STURGEON from the waters of the Caspian Sea, a delicacy prized around the world, was long a Russian monopoly—until last spring when the Red hold was broken by an American. And there is a strong possibility that the Soviet corner on caviar, the eggs of sturgeon, may also eventually be broken.

Behind the bust-up of Russia's sturgeon monopoly is a saga of ingenuity, diplomacy—and patience. It is the story of a man who regained an opportunity he missed twenty-five years ago.

In his office overlooking the East River in downtown New York City, Allen T. Sherman told how it had been done.

Stocky, gravel-voiced Sherman heads the International Fisheries Corporation. Now in his early fifties, he first became interested in Caspian sturgeon back in 1924. News had reached him of a deal impending between Russia and



Iran, the other country bordering the Caspian Sea.

"There was a rumor," Sherman said, "that Iran's fisheries' agreement with Russia was up for renegotiation. I wanted the concession, so I started out for Teheran." Sherman got as far as Marseilles when he got word that Iran had renewed a twenty-five-year agreement with Russia, starting in 1928.

The agreement permitted the Russians to fish in Iranian waters. Russia put 90 percent of the catch up for sale on the world market, giving Iran 15 percent of the profits, plus an annual bonus. The catch didn't add up to much as a statistic in world trade. But

spread around the globe as hors d'oeuvres, it netted the Soviets a sizable trade prestige. Iran's annual profit was \$1,250,000.

The Russo-Iranian contract was to expire on January 31, 1953. Sherman waited—building up fisheries in other countries—and watched the calendar. When the contract expired, however, Iran announced there would be no fisheries' agreements with anyone. Desperately in need of foreign currency, she nationalized her fisheries, as she had her oil, and planned to market the product herself.

World markets remained in Russian control, however. The Soviets began to angle for a ten-year contract giving them exclusive selling rights. At this point, said Sherman, "I got wind from our Point Four people in Iran that the Iranians would consider selling sturgeon to an American firm. I took off."

THE Russians tried to block Sherman's moves, charging he was a spy for U. S. Naval Intelligence. But within two weeks he got an appointment with Premier Mohammed Mossadegh.

"I met him at seven in the morning," Sherman recalled. "He assured me his government would

do everything possible to help me obtain fish and transportation."

Several months later, a three-year contract was signed, giving Sherman and the Russians each fifty percent of Iran's production.

Sherman dug in. His first problem was transportation for the run from his freezer plant on the Caspian coast to Teheran. He acquired three diesel trucks and had them insulated. Next he got hold of four old refrigerator freight cars and had them rebuilt for the trip between Teheran and the Karun River port of Khorramshahr. After much haggling, he won permission to couple the refrigerator cars to a fast passenger train, saving days of hot desert haulage.

Only beginning to roll, Sherman expects to import about 750,000 pounds of sturgeon this year. By 1957 he hopes to push this figure beyond the 2,000,000 mark.

Sherman was given his start in the fisheries business by railroad tycoon W. Averell Harriman in 1923. A brash youngster with a small shipping concern, he went to Harriman with a merger proposal that was turned down. Harriman was impressed, however, and three months later recommended Sherman to the Atlantic Coast Fisheries Company as a bright young man who could be employed to advantage in developing the company's foreign sources. In 1946

Eric Berger, an editor with Scholastic Magazines, wrote this article from firsthand interviews.

Sherman went into business on his own with the blessings of his former employers.

Today, on his office bookshelf, Sherman displays flags of the many countries with which he does business. Off Moncora, Peru, he operates a floating freezer which buys tuna, swordfish and shrimp from local fishermen and processes them for shipment to the U. S. At Calicut, India, he is now putting a new shrimp-freezing plant into operation. From another freezer at Huelva, Spain, he ships lobster tails to the U. S.

At Karachi, Pakistan, Sherman operates a small fleet of shrimp boats and another freezer plant. Fifty-one percent of the shares in the Karachi company are owned by private Pakistani capital, the rest by Sherman.

"International Fisheries (Pakistan) Ltd.," Sherman explained, "buys and produces fish products. These are frozen and shipped to International Fisheries Corporation in the U. S., which pays the Pakistani company in dollars. The dollars go to the bank in Karachi, which converts them to rupees for payment to the Pakistani company." The dollars help to build up the Pakistani government's reserves and buying power in world markets.

AS IN the case of sturgeon, the possibilities of cutting into Russian control of the supply of the

world's caviar lie in the development of Iranian sources. The Russian hold is secure for the time being only because the Iranians do not want to cut the going price. Furthermore, according to experts, they do not yet know how to prepare caviar to the connoisseur's taste.

At present, caviar, most of it Russian, is sold in the U. S. almost wholly by the Romanoff Caviar Company. Both this firm and Sherman's company are watching Iran's efforts to improve the processing of her caviar, awaiting the chance to market it on a big scale. The Romanoff people have tested the advantages of air freight for this.

If, as seems likely, during the years ahead the nations of the free world and those of the Communist bloc enter into massive economic competition involving grains and ores, further developments in sturgeon and caviar may yield significant clues and precedents. Whatever happens will reveal more about Russia's intentions and methods. And as private individuals such as Allen T. Sherman explore opportunities and initiate mutually beneficial arrangements with such "in-between" countries as Iran, challenging examples may be set for other nonregimented businessmen and for their compatriots. ■

*The amount of goods and services currently produced,
as compared to the number of people who must share
in it, determines the upper limit of wages*

HOW HIGH CAN WAGES BE ?

by George Soule

WORKERS have usually wanted more pay. Employers have customarily resisted the pressure of labor for more, yet in the course of time wages have risen. Are decisions about wages merely a matter of contests of power? Is there any top limit to the increase of wages, or any bottom below which they cannot be reduced? Are there any principles by which wage disputes can be judged?

Many theories have been advanced to account for the level of wages—theories which held that there were top and bottom limits to the amount that wage earners could receive. No wage earner really believes that a given employer would be able to increase wages by any amount that fancy might dictate, and still remain in business. And no employer really believes that he could pay as little as he might wish and still get competent people to work for him. What are some of the more

Man, Wages and Employment in the Modern U. S. Economy, by George Soule, is based on the findings of a large-scale survey, *Employment and Wages in the U. S.*, by S. Weytinsky and Associates, which was published last year by the Twentieth Century Fund, New York. George Soule is Director-at-large of the National Bureau of Economic Research.

prominent suggestions which have been put forward by experts to account for these upper or lower limits?

The doctrines held by economists, who are the experts in such matters, have been much influenced by the times in which they lived. When the first modern economists began to think carefully about wages, most wage earners were abjectly poor. Power-driven machinery in textile mills was replacing the hand spinners and weavers who worked at home. Since machinery produced more

*Excerpted from "Man, Wages and Employment in the Modern U. S. Economy,"
by George Soule. Copyright 1954, New American Library, New York. 35 cents.*

with less labor, its product could be sold more cheaply. . . . Since the supply of those seeking jobs often grew faster than the market for the products, they had to accept whatever wages were offered, living in crowded hovels and getting barely enough to eat.

Economists have always been concerned largely with theories about prices. Wages and salaries are, among other things, the price which employers pay for labor. It is a natural and familiar idea that prices depend largely on the relationship between demand and supply. How, then, did the demand for and the supply of labor operate to keep wages so low?

A PREVALENT idea in the early 1800s was that wages not only were low at the time, but could never rise much above the minimum necessary to keep wage earners and their families alive. If wageworkers, who at that time constituted a separate social class, received less than the minimum necessary for subsistence, their numbers would be decreased by starvation and disease. This reduction of the supply of labor would cause wages to rise to or above the absolute minimum. But if wages remained much above the subsistence level, working-class families would have more children, and fewer of them would succumb to the miseries of

poverty. Thus the supply of labor would be increased and wages would fall again. This grim theory became known as the "iron law of wages."

Adam Smith, acknowledged as the father of capitalist economic doctrine, published his great work, *The Wealth of Nations*, in 1776, the year of the American Declaration of Independence. The industrial revolution had already made progress in Great Britain (Smith was a Scotsman), and the air was full of hope for great changes which would improve the sorry lot of the mass of mankind. Smith was basically an optimist; he believed in the betterment of human society if only it were freed from the restrictions imposed by oppressive governments.

His doctrine of wages was in consequence far more hopeful than the prevailing one. . . . *The Wealth of Nations* stressed the gains in national wealth which could result from improved methods of production, division of labor, and free interchange of products both nationally and internationally. If the wealth of a nation grew, would not labor share in that increase? Smith maintained that it could; he found reasons to believe that British labor had, over a long period, enjoyed a rising level of living. The nations where wages did not seem to increase were

those, like China, where material progress had ceased.

SMITH concentrated his attention on the demand for labor more than on the supply. Wages would rise as the demand for labor increased, and the demand for labor would rise with the growth of the national wealth. In the North American colonies, Smith pointed out, the need for labor made wages extraordinarily favorable.

Well-paid labor, Smith thought, would be worth more to employers, since wage earners who were better fed and were given reason to believe that they might improve their lot would be better workers.

Yet, though Smith was hopeful for the long run, he thought there was an upper limit above which wages could not rise at any particular time. The total that could be paid in wages was the "fund" set aside for that use by employers. Employers and independent craftsmen must first of all pay their necessary expenses for self-maintenance, tools, machines and the like. Without doing that they could not stay in business at all. But any excess which they were able to lay aside could be used to employ people to work for them. The size of this "wage fund"—in essence a part of their capital—determined the upper limit of the demand for labor.

Nassau Senior, a follower of Adam Smith, carried this idea further and made it more precise. The wage fund, he asserted, consisted in reality of the goods made for working families to consume. How much each family obtained would then depend on the number of families sharing these goods. Greater productiveness would increase the fund. Senior thought that nothing but the size of the fund and the number participating in it could affect wages in the long run.

ALFRED MARSHALL, the British economist who reigned supreme among economic theorists in the early twentieth century, concerned himself with a problem that previous thinkers had barely touched. By this time it was clear, after a century of technological improvement, that the national product in Western Europe and the United States had increased much more rapidly than population, and hence wage earners received much more than a subsistence minimum. The problem was, how was this surplus above absolute necessities divided? How much would the employer allot to wages, how much to purchase of new machinery and tools?

Marshall's answer was that it depended on how much each sort of expenditure would add to production. If an employer could get

greater added output by paying one hundred dollars more in wages than by spending one hundred dollars more to improve his factory, he would do so. But if the new machinery were more productive than the extra labor that he could hire for the same amount, he would choose the machinery instead.

Marshall's successor as Professor of Economics at Cambridge University, A. C. Pigou, points out that wages may be too low to promote desirable gains in efficiency. Even if an employer believes that he cannot pay the increase demanded, it may be because he is a relatively poor manager or is badly equipped. In that case, compulsion to pay a higher wage would force him either to improve his operations or to leave the field to more highly productive concerns. This would increase the total product of the nation. Yet Pigou argues that wages may be too high if they are beyond the capacity of even a well-run business to afford. Prices may then have to be raised to a level at which consumers will restrict their purchases, and the national product will be decreased.

WAGE earners sometimes advance what is called the "purchasing power" theory of wages—the view that if wages are not high enough, workers cannot buy back what

they produce and therefore depression and unemployment will ensue. In its crude form this argument is easily punctured by economic theorists. Wage earners are not the only purchasers who spend money and thus maintain employment. Money invested in new factories, machinery or housing also keeps the system going.

The long stream of wage controversy and the theories about it have deposited a fairly solid residue, accepted by almost all present authorities.

Basic to everything else is a recognition of the fact that we have had in modern times a rapidly growing volume of production, due to technological improvements. . . .

Wages are the share of wage-workers in that growing product and can rise as production does.

Wages are really paid out of the goods and services currently produced—not out of a "fund" or out of profits. The amount produced, compared with the number of people who must share in it, fixes an upper limit to wages.

In our economic order, wages are the price paid for labor and, within the limits set by production, are determined by much the same kind of influences that affect other prices. Supply and demand, bargaining power, and the forces that lie behind these factors all play a part. ■

From the Bookshelf

We have learned from the past certain things that might be done, or ought not to be done, in order to steer a faltering economy towards recovery

Recessions and Revival

THE ECONOMICS OF RECESSION AND REVIVAL. By Kenneth D. Roose, Associate Professor of Economics, Oberlin College, Oberlin, Ohio. 280 pp. New Haven, Conn.: Yale University Press. \$3.75.

IN THE learning process—whether it be that of a girl friend at a baseball game or anyone amid the swirl of public affairs—two simple principles hold true. The first is that we learn when we are ready to do so; we have to be receptive. The second is that we learn from experience.

Our experiences with slump and revival over the past three decades or so have been vivid, rousing and sustained. Interest has been whipped high. The recent “most widely advertised recession in history” no doubt has also been the most widely read-about recession in history.

Having proved eager for in-

formation about a possible slump, people might be expected to want to find out how to forestall a backslide and go on to “more and more” prosperity. This must have seemed one plausible reason for publishing *The Economics of Recession and Revival*, by Kenneth D. Roose. The book appeared when fears of a recession were at their height.

This analysis is based upon a particularly rude economic experience we had seventeen years ago—the depression of 1937-38. Though flat in style, the book has much to offer for present-day economic consideration.

No two economic slumps are entirely alike. The dip of 1937-38 has been set off as “the depression within a depression.” To some extent this limits its comparability to the recent situation with its background of boom.



Not many realize how bad the slump of 1937-38 was. "In severity," says Professor Roose, "the nine-month decline from September 1937 to June 1938 is without parallel in American economic history."

Nearly one out of every four manufacturing employees lost his job. Payrolls fell by 35 percent and national income by 13 percent. Industrial output declined by 33 percent, with durable goods production dropping to less than half. It was a brief, but sharp, relapse for an economy still trying to regain vitality after the siege of 1929-32.

What brought on the relapse? Professor Roose turns up a cluster of business, consumer and Governmental factors. Together they lead to a critical falling-off of business investment.

In business, profits were declining, costs (particularly labor costs) were rising; funds were low and taxation was running high. A tax on undistributed profits led many corporations in December 1936 to convert into dividends money they might have sown for future operations. Apart from their financial capacity, businessmen in general at the time were reluctant to try for long-term gains on investment because of what they considered the malign influence of the New Deal Administration.

In the consumer field, purchasing power was slack and unsteady with at least eight million people still out of work. The \$1,700,000-000-veterans' bonus of 1936 perked retail buying for a few months, but when that was used up the economy was left hanging. Late in 1936, the new Social Security taxes began to skim off consumer dollars.

With the economy already stumbling, the Government made what were in Roose's view two crucial mistakes. Suddenly and drastically it reduced its own direct expenditures. Secretary of the Treasury Henry Morgenthau, Jr.'s announced reason was to get back to a balanced budget. At the same time the Government acted to restrict money and credit, with the Federal Reserve Board imposing for the second time within a year a 50 percent increase in liquid reserves required of member banks against loans.

It took almost a year for the impact of all these factors to combine. After its first bewildered staggers, the nation reacted fast.

TO QUOTE Prof. Roose, "modifications of the undistributed profits and capital gains taxes improved the climate of business opinion. It is also probable that the reduction of inventories and production to the point where they were in balance with current consumption

left the economy ripe for revival. But . . . the major if not exclusive responsibility for stimulating the revival must rest with the new spend-lend program."

President Roosevelt's spend-lend program of 1938 mixed direct outlays for public works with subsidies to private business, bond issues at high rates of interest and steps that would loosen credit. It was a reversal of the fiscal and monetary policies of 1936 and 1937, says Roosevelt, and a return to deficit financing that would add to the national debt.

What he thinks of deficit financing as an expedient or as a policy the author does not say. Does silence mean consent? On what these causes of the 1937-38 downturn and upturn prove for today or any day, Prof. Roosevelt expresses himself lengthily but guardedly. In looking for causes he first sifted the writings of top economists including Sumner Slichter, Alvin Hansen, Joseph Schumpeter and Wesley Mitchell, but he did not find anywhere an adequate grounding of theory in empirical data, or a sorting out of data that gave adequate special consideration to the few most important areas of economic activity. In a sense his book represents an effort to amend these failings.

Seeking his own answers, and admitting only "a slight initial bias toward the necessity and de-

sirability of stimulating investment expenditures," Roosevelt probed seven economic "series" or descriptions of particular activities.

He looked into (a) the overall performance of the economy, (b) financial investment, (c) the money market and banking system, (d) price-cost relationships, (e) employment and unemployment, (f) consumption factors, and (g) capital formation and expenditures.

ROOSE announces that he is not describing or prescribing for business cycles in general. In fact, he spurns the use of the term *business cycle*: "Business fluctuations are caused by a complex of factors which are not necessarily cyclical." What's more, "each fluctuation is unique and must be analyzed in terms of its own peculiar causes."

Our author most nearly mounts the rostrum when he says, "In the eagerness to redistribute income and to promote greater equality in the ownership of wealth, sight must not be lost of the fact that profits are essential to the operations of a private enterprise economy." Disparaging reliance upon the raising of money wages as a cure-all, he declares: "Until there is substituted an economic system with different incentives and problems, it would seem that 'satisfactory

profits' are a price which must be paid if a reasonably full utilization of resources is to be attained."

In his "recommendations for public policy" Roose does not say what should be done so much as what sort of information is needed for the doing.

First, "there must be a continual awareness of the extent to which the Government is acting in its role of tax collector and public disburser to depress or to stimulate the level of income and production. A current series of net Government contribution to income is a necessary tool of Government policy. Because there was no such series in 1937-38, most policy-makers and economists were unaware the Government was acting as a deflationary agent throughout 1937."

Prof. Roose goes on to ask for more facts on the effects of re-directing the flow of income among groups, the current and future profitability of investment, the distribution and level of income, consumer spending, and the relationship of inventory accumulation, new orders, and sales.

FOR seekers of easy enlightenment, this book would be disappointing. A conscientious economic analyst does not set himself up as a traffic director on a straight highway to economic progress.

Most of *The Economics of Recession and Revival* has to do with what is *not* known rather than what is known about the subject. The same is true for many more serious, empirical studies of economic fluctuations.

The situation prevailing at any given time can be sliced into a number of categories and described fairly coherently. But no one has come up with a way of encompassing the *process*, the thrust of developments into the future, with all variables tucked in and ticketed. As time moves along and the story unfolds, even ideological values and motivations slip from comprehension if not probed, understood and recorded.

Yet an increment of durable knowledge is being stored up in economics as in the more exact sciences. In its tenuous way, *The Economics of Recession and Revival* is a contribution to this knowledge, valuable to the reader to the extent that it makes allowances for the amplitude of the context and the slipperiness of the substance.

For greater acquisition of information about economics by the public, the two pre-conditions of receptivity and experience have been well built up. But a third simple principle of learning must be added. This is that for every one genuinely interested, the learning must always go on. ■

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(Cont'd from p. 2)

mates, which foresee total outlays for '54 amounting to \$27.2 billion, or about 4½% below the record \$28.4 billion spent last year.

Federal spending will be reduced by only \$2 billion in the current fiscal year (1954-55) compared to a reduction of \$7 billion in fiscal 1953-54. A good deal of this reduction, however, will be made up by increased spending by state and local governments. Still, there are no indications that government spending is going to stir a new boom.

The consumer, on the other hand, kept right on buying according to recent Commerce Department figures, which indicate that consumer expenditures were running at an annual rate of \$232 billion during the second quarter, up by \$2 billion above the first quarter. And surveys of consumer buying plans for the rest of the year all point to a strong pickup with over-all dollar retail sales surpassing 1953.

A real buying splurge on the part of the consumer could move up the recovery timetable of economists by three to four months. In fact, many businessmen think that is just what the consumer is going to do, and they predict a new boom before the year is out.

The outlook for freer convertibility of European currencies and for a liberalization of trade barriers is brighter than at any time since the end of the war:

Britain, which would have to take the lead, is inching her way toward making the pound freely convertible into dollars. Her gold and dollar reserves now exceed \$3 billion, which most economists believe is a safe margin. Even more important, Britain is enjoying a modest little boom with full employment

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and no inflation. Nothing sudden is expected, but top-level conferences in London and later this month, in Washington are expected to lead to a step-by-step relaxation of export restrictions culminating in a freely convertible pound sometime in '55.

Other nations are expected to go along. Germany's Minister of Economic Affairs, Dr. Erhard, has predicted that his country will achieve currency convertibility within the next year. In fact, he believes that Germany's economic position is so strong that her present dollar exchange rate of 4.2 marks can be maintained in a free market. Dollar and gold reserves of most other European nations have grown.

We are ready to support any such moves, which would help American exporters and restore normal trading relationships, by using U. S. funds credited to the European Payments Union as a backstop for the program. But some Europeans fear (especially since the recent decision to hike watch tariffs) that U. S. tariff moves may force them to retreat once more behind their walls of inconvertibility.

The Department of Better Mousetraps: a wide-angle lens for 16 mm cameras and projectors which lets home movie fans film pictures in CinemaScope . . . an extra-intelligent cash register that computes how much change a customer is entitled to and then keeps a record of its calculations . . . a paper that keeps 90% of its tensile strength after being soaked in water . . . a painless dental drill . . . a visual pulse reader . . . a new home-type electric juicer which liquifies almost any vegetable within a few seconds . . . and, finally, a chemical substance which, the advertisers claim, provides complete protection against poison ivy.

